EXECUTIVE BUDGET

ECONOMIC AND REVENUE OUTLOOK

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RECEIPTS OVERVIEW

RECEIPTS OVERVIEW

The Economic and Revenue Outlook is a volume designed to enhance the presentation and transparency of the 2007-08 Executive Budget. The book provides detailed information on the economic and receipt projections underlying the Executive Budget. The economic analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Financial Plan receipts comprise a variety of taxes, fees, charges for State-provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipt information required by Article VII of the State Constitution and Section 22 of the State Finance Law and provides information to supplement extensive reporting enhancements undertaken in recent years. The Division of the Budget (DOB) believes the information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates underlying the 2007-08 Executive Budget. The receipt estimates and projections have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts. The *Economic Revenue Estimating Methodology* and a *Data Appendix* for this volume are available at the Division of the Budget's website at www.budget.state.ny.us. The Methodology volume provides a comprehensive review of the methods used in determining the economic and tax receipt projections.

The Economic and Revenue Outlook is presented in the following general sections:

- Financial Plan Receipts and Projections: Provides a summary of Financial Plan receipts for the current year and the 2007-08 Budget year by tax category and fund type.
- Financial Plan Tables and Cash Flow: Provides Financial Plan tables for receipts by fund type and includes a detailed report on monthly cash flow projections for the upcoming fiscal year.
- 2007-08 Revenue Actions: Summarizes the revenue actions proposed with the 2007-08 Executive Budget.
- Economic Backdrop: Provides a detailed description of the Division's forecast of key economic indicators for the National and New York State economies.
- Recent Trends in All Funds Receipts: Examines historical trends in State receipts over the past three decades along with projections of receipts for fiscal years 2006-07 through 2010-11.
- Comparison of New York State Tax Structure to Other States: Compares the New York tax structure and burden to other states.
- Forecast Performance: Provides a detailed report on recent revenue forecasting performance.

- Tax Receipt Explanation: Provides a detailed report for each tax and miscellaneous receipts source describing historical receipts and projections for the current and upcoming budget years, the impact of legislation proposed with the Executive Budget, and significant legislation that has been enacted.
- Dedicated Fund Tax Receipts: Provides a report on dedicated tax receipt estimates, with an emphasis on transportation-related dedicated taxes.
- Audit and Compliance Receipts: Provides data and analysis to better understand receipts collections.

TOTAL RECEIPTS (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Annual Change	Percent Change	2007-08 Projected	Annual Change	Percent Change
General Fund	**47,206**	**51,441**	**4,236**	**9.0**	**52,666**	**1,225**	**2.4**
Taxes	35,304	38,237	2,933	8.3	38,284	47	0.1
Miscellaneous Receipts	2,029	2,665	636	31.3	2,851	186	7.0
Federal Grants	0	180	180	-	59	(121)	(67.1)
Transfers	9,873	10,360	487	4.9	11,472	1,113	10.7
State Funds	**71,727**	**76,868**	**5,140**	**7.2**	**80,918**	**4,050**	**5.3**
Taxes	53,643	58,309	4,665	8.7	60,961	2,653	4.5
Miscellaneous Receipts	18,072	18,379	307	1.7	19,897	1,518	8.3
Federal Grants	12	180	168	1,367.2	60	(121)	(66.8)
All Funds	**107,027**	**113,031**	**6,003**	**5.6**	**118,316**	**5,286**	**4.7**
Taxes	53,643	58,309	4,665	8.7	60,961	2,653	4.5
Miscellaneous Receipts	18,255	18,538	283	1.6	20,044	1,506	8.1
Federal Grants	35,129	36,184	1,055	3.0	37,311	1,127	3.1

FISCAL YEAR 2006-07 OVERVIEW

- Total All Funds receipts are estimated to reach more than $113.0 billion, an increase of $6.0 billion, or 5.6 percent from 2005-06 results. All Funds tax receipts are estimated to grow by $4.7 billion or 8.7 percent. The majority of this increase is attributable to the continued economic growth of the Downstate economy, especially in the financial services, real estate and construction sectors.
- In fact, even with the substantial tax reductions implemented in 2006-07, growth in tax receipts remained strong (8.7 percent). Factoring out the impact of law changes, growth in tax receipts is estimated at almost 12 percent.
- Miscellaneous receipts are estimated to increase by $283 million, or 1.6 percent, largely the result of one-time actions taken with the 2006-07 Budget.
- Total State Funds receipts are estimated to be nearly $76.9 billion, an increase of $5.1 billion, or 7.2 percent from 2005-06 actual results. State Funds Miscellaneous receipts are estimated to increase by $307 million, or 1.7 percent.
- Total General Fund receipts are estimated at $51.4 billion, an increase of $4.2 billion, or 9.0 percent from 2005-06 results. General Fund tax receipt growth is estimated at 8.3 percent. General Fund miscellaneous receipts are estimated to increase by 31.3 percent, reflecting actions taken with the 2006-07 Budget including a one-time increase in abandoned property receipts as well as significant increases in investment income associated with larger fund balances.

FISCAL YEAR 2007-08 OVERVIEW

- Total All Funds receipts are expected to reach $118.3 billion, an increase of $5.3 billion, or 4.7 percent from 2006-07 results. All Funds tax receipts are projected to grow by nearly $2.7 billion or 4.5 percent. The majority of this increase is attributable to the expectation of continued economic expansion offset by the net impact of past and proposed tax actions that serve to reduce receipts in 2007-08 on a net basis by $450 million. All Funds Federal grants are expected to increase by more than $1.1 billion, or 3.1 percent. All Funds Miscellaneous receipts are projected to increase by approximately $1.5 billion, or 8.1 percent.
- After controlling for the impact of policy changes, base tax revenue growth is estimated to remain strong at 6.5 percent for fiscal year 2007-08.
- Total State Funds receipts are projected to be $80.9 billion, an increase of $4.1 billion, or 5.3 percent from 2006-07 estimated receipts.
- Total General Fund receipts are projected at $52.7 billion, an increase of nearly $1.2 billion, or 2.4 percent from 2006-07 estimates. General Fund tax receipt growth is projected to remain nearly level with 2006-07 results and General Fund miscellaneous receipts are projected to increase by 7.0 percent. The lack of growth in General Fund tax receipts largely reflects proposals with this Budget, including increasing STAR benefits and earmarking additional funds to debt service funds. Due to the loss of one-time Federal grants from the Medicare Part D program, this category is expected to decrease by 67.1 percent.

CHANGE FROM MID-YEAR UPDATE

CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS
(millions of dollars)

	2006-07 Mid-Year Update	2006-07 Executive Budget	Change	Percent Change	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change
General Fund	**40,965**	**41,082**	**117**	**0.3**	**41,065**	**41,194**	**129**	**0.3**
Taxes	37,875	38,237	362	1.0	38,821	38,284	(537)	(1.4)
Miscellaneous Receipts	2,910	2,665	(245)	(8.4)	2,184	2,851	667	30.5
Federal Grants	180	180	0	0.0	60	59	(1)	(1.0)
State Funds	**76,692**	**76,868**	**175**	**0.2**	**78,318**	**80,918**	**2,600**	**3.3**
Taxes	57,833	58,309	476	0.8	58,897	60,961	2,064	3.5
Miscellaneous Receipts	18,679	18,379	(300)	(1.6)	19,361	19,897	536	2.8
Federal Grants	180	180	0	0.0	60	60	(1)	(1.1)
All Funds	**112,876**	**113,031**	**155**	**0.1**	**116,138**	**118,316**	**2,178**	**1.9**
Taxes	57,833	58,309	476	0.8	58,897	60,961	2,064	3.5
Miscellaneous Receipts	18,839	18,538	(301)	(1.6)	19,508	20,044	536	2.7
Federal Grants	36,204	36,184	(20)	(0.1)	37,733	37,311	(422)	(1.1)

All Funds receipts estimates have been revised upward by $155 million for fiscal year 2006-07. Tax receipts growth to date for fiscal year 2006-07 has exceeded expectations and, as a result, All Funds tax estimates for the year have been increased by $476 million from the Mid-Year Update. Miscellaneous receipts growth has been revised down by $301 million, reflecting in part the movement of one-time payments from the Power Authority to fiscal year 2007-08. These tax increases are partially offset by a downward revision in Federal grants of $20 million.

The upward revision to General Fund receipts for fiscal year 2006-07 is $117 million, reflecting $362 million in tax receipts offset by a decrease in miscellaneous receipts of $245 million.

All Funds receipts have been revised upward by nearly $2.2 billion for fiscal year 2007-08. Most of this increase is accounted for by a $2.1 billion upward revision in tax receipts from the Mid-Year Update. The upward revisions are the result of three primary factors: better-than-expected results in 2006-07 lifting the receipts base, stronger than expected economic growth, especially in the financial services sector, and policy actions proposed with this Budget to close tax loopholes. All Funds miscellaneous receipts are revised up by $536 million. The economic growth assumptions underlying this forecast are detailed later in this volume. The tax policy changes proposed with this Budget are reported in summary below and in detail in the tax-by-tax write-ups contained in this report. These positive revisions are offset by an expected decline from the Mid-Year Update in Federal grants of $422 million due primarily to savings and other cost avoidance recommendations in the Medicaid program.

The upward revision to General Fund receipts is $129 million. Tax revisions account for a decrease of $537 million offset by an increase of $667 million in miscellaneous receipts. The General Fund change, excluding transfers, represents a 0.3 percent increase above Mid-Year Update expectations.

FISCAL YEARS 2008-09, 2009-10 AND 2010-11 OVERVIEW

TOTAL RECEIPTS
(millions of dollars)

	2007-08 Projected	2008-09 Projected	Annual Change	Percent Change	2009-10 Projected	Annual Change	Percent Change	2010-11 Projected	Annual Change	Percent Change
General Fund	**52,666**	**54,537**	**1,871**	**3.6**	**57,154**	**2,618**	**4.8**	**59,762**	**2,608**	**4.6**
Taxes	38,284	40,223	1,939	5.1	42,332	2,109	5.2	44,427	2,094	4.9
State Funds	**80,918**	**85,255**	**4,337**	**5.4**	**88,449**	**3,194**	**3.7**	**91,960**	**3,511**	**4.0**
Taxes	60,961	64,388	3,427	5.6	67,935	3,547	5.5	71,111	3,176	4.7
All Funds	**118,316**	**124,428**	**6,112**	**5.2**	**129,306**	**4,878**	**3.9**	**134,643**	**5,337**	**4.1**
Taxes	60,961	64,388	3,427	5.6	67,935	3,547	5.5	71,111	3,176	4.7

Overall, receipts growth in the three fiscal years following 2007-08 is expected to remain moderately strong consistent with projected continued growth in the U.S. and New York economies. In addition, the proposals contained with this Budget would eliminate unintended tax loopholes and supplement Department of Taxation and Finance efforts to find non-compliant taxpayers; both actions continue to enhance expected receipt growth through 2010-11.

- Total All Funds receipts in 2008-09 are projected to reach $124.4 billion, an increase of $6.1 billion, or 5.2 percent from 2007-08 estimates. All Funds receipts in 2009-10 are expected to increase by nearly $4.9 billion (3.9 percent) over the prior year. In 2010-11, receipts are expect to increase by more than $5.3 billion over 2009-10.
- Total State Funds receipts are projected to be nearly $85.3 billion in 2008-09, more than $88.4 billion in 2009-10 and nearly $92.0 billion in 2010-11.

- Total General Fund receipts are projected to reach $54.5 billion in 2008-09, nearly $57.2 billion in 2009-10 and almost $59.8 billion in 2010-11.
- All Funds tax receipts are expected to increase by 5.6 percent in 2008-09, 5.5 percent in 2009-10 and 4.7 percent in 2010-11. Again, the growth pattern is consistent with an economic forecast of continued but modest economic growth.

BASE GROWTH

Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Personal Income Growth
2006-07	8.7	11.9	5.4
2007-08	4.5	6.5	5.0
2008-09	5.6	5.7	5.0
2009-10	5.5	5.6	5.2
2010-11	4.7	4.8	5.1

	Actual Change	Base Change	Inflation Adjusted Base Change	Personal Income Growth
Historical Average (87-88 to 05-06)	**4.4**	**4.0**	**0.9**	**4.8**
Forecast Average (07-08 to 10-11)	**5.1**	**5.6**	**3.0**	**5.1**
Recessions	**1.6**	**(0.6)**	**(3.3)**	**2.9**
Expansions	**4.5**	**5.3**	**2.1**	**5.8**

Base growth, adjusted for law changes, in tax receipts for fiscal year 2006-07 is estimated at 11.9 percent. Growth in the tax receipts base has benefited from several factors including:

- improvements in overall economic activity, especially in New York City and surrounding counties;
- continued profitability and compensation gains of financial services companies;
- continued growth in downstate commercial real estate market; and
- continued positive impact of high-income taxpayers on personal income tax growth.

Strong economic growth, especially concentrated in Downstate New York over the past several years, has driven large gains in receipts. It is expected that the rapid expansion in base revenue will slow modestly in 2007-08 and beyond, reflecting a slowing national economy, a continued cooling of the housing market and more modest gains in the equity markets. Actual receipts are expected to grow more slowly than the underlying base in 2007-08, reflecting the impact of proposed and already enacted tax reductions. As the above table indicates, non-adjusted receipts growth closely matches expected growth in personal income over the forecast period.

Personal Income Tax

PERSONAL INCOME TAX (millions of dollars)	2005-06 Actual	2006-07 Estimated	Annual Change	2007-08 Projected	Annual Change
General Fund	**20,700**	**22,828**	**2,128**	**22,258**	**(570)**
Gross Collections	36,544	39,964	3,420	42,588	2,624
Refunds	(5,731)	(5,530)	201	(6,314)	(784)
STAR	(3,213)	(3,996)	(783)	(4,948)	(952)
RBTF	(6,900)	(7,610)	(710)	(9,068)	(1,458)
State/All Funds	**30,813**	**34,434**	**3,621**	**36,274**	**1,840**
Gross Collections	36,544	39,964	3,420	42,588	2,624
Refunds	(5,731)	(5,530)	201	(6,314)	(784)

All Funds personal income tax (PIT) receipts for 2006-07 are estimated at $34.4 billion, an increase of $3.6 billion or 11.8 percent over the prior year. The increase is primarily attributable to strong growth in withholding of $1.95 billion, or 7.9 percent, and solid growth in estimated taxes for tax year 2006 liabilities of just under $900 million (13.3 percent). The latter reflects the full impact of the elimination of the temporary surcharge in tax year 2006. In addition, final settlement payments for the 2005 tax year were robust and include a 12.4 percent ($306 million) increase in payments with extensions, a 15.6 percent increase ($257 million) in payments accompanying final returns, and a 3.5 percent decrease (roughly $200 million) in refunds. The following table summarizes, by component, actual receipts for 2005-06 and forecast amounts through 2010-11.

PERSONAL INCOME TAX FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)	2005-06 (Actual)	2006-07 (Estimated)	2007-08 (Projected)	2008-09 (Projected)	2009-10 (Projected)	2010-11 (Projected)
Receipts						
Withholding	24,761	26,710	28,376	30,251	32,068	33,920
Estimated Payments	9,158	10,352	11,147	12,097	13,057	13,827
Current Year	6,684	7,572	8,272	8,972	9,552	10,202
Prior Year*	2,474	2,780	2,875	3,125	3,505	3,625
Final Returns	1,849	2,078	2,156	2,256	2,404	2,561
Current Year	199	171	175	175	175	175
Prior Year*	1,650	1,907	1,981	2,081	2,229	2,386
Delinquent Collections	776	824	909	947	985	1027
Gross Receipts	36,544	39,964	42,588	45,551	48,514	51,335
Refunds						
Prior Year*	3,481	3,227	4,035	4,233	4551	5001
Previous Years	272	270	270	290	310	330
Current Year*	1,512	1,500	1500	1500	1,500	1,500
State-City Offset*	466	533	509	704	784	858
Total Refunds	5,731	5,530	6,314	6,727	7,145	7,689
Net Receipts	30,813	34,434	36,274	38,824	41,369	43,646

* These components, collectively, are known as the “settlement” on the prior year’s tax liability.

All Funds income tax receipts for 2007-08 of $36.3 billion are projected to increase $1.8 billion over the prior year. Gross receipts are projected to increase 6.6 percent and reflect projected withholding growth of 6.2 percent ($1.7 billion), while the growth in estimated taxes for tax year 2007 liabilities is expected to reach 9.2 percent ($700 million). Payments from extensions and final returns for tax year 2006 are projected to each increase by less than 4.0 percent, or by $95 million and $74 million, respectively. Receipts from delinquencies are projected to increase $85 million over the prior year. Net receipts, which include refunds on tax year 2006 payments and liabilities, are projected to grow 5.3 percent and reflect growth in refunds of $784 million or 14.2 percent. The robust growth over the prior year in refunds is mainly attributable to the impact of the child credit implemented in 2006, offset by a slight reduction in the State/City offset from the prior year ($24 million).

General Fund income tax receipts are net of deposits to the STAR Fund which provides property tax relief, and the Revenue Bond Tax Fund (RBTF), which supports debt service payments on State Personal Income Tax Revenue Bonds. General Fund income tax receipts for 2006-07 of $22.8 billion are expected to increase $2.1 billion or 10.3 percent over the prior year. General Fund receipts for 2006-07 reflect an increase in STAR deposits of $783 million, which relate to the STAR rebate program implemented in 2006, and a $710 million increase in deposits to the RBTF.

General Fund income tax receipts for 2007-08 of $22.3 billion are projected to decline by $570 million or 2.5 percent from the prior year. The decline is attributable to increases in the deposits to the STAR Fund of roughly 24 percent to nearly $5.0 billion. This increase supports the new expanded STAR program proposed with the Budget. In addition, deposits to the RBTF of almost $9.1 billion reflect Executive Budget legislation that would provide that deposits to the RBTF be calculated before the deposit of income tax receipts to the STAR Fund. Although this would have the impact of decreasing General Fund PIT by more than $1.0 billion (25 percent of STAR), deposits in excess of debt service requirements are transferred back to the General Fund.

PERSONAL INCOME TAX CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS
(millions of dollars)

	2006-07 Mid-Year Update	2006-07 Executive Budget	Change	Percent Change	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change
General Fund	**22,836**	**22,828**	**(8)**	**(0.0)**	**23,959**	**22,258**	**(1,701)**	**(7.1)**
Gross Collections	39,786	39,964	178	0.4	42,102	42,588	487	1.2
Refunds	(5,296)	(5,530)	(234)	4.4	(6,405)	(6,314)	91	(1.4)
STAR	(4,041)	(3,996)	45	(1.1)	(3,750)	(4,948)	(1,199)	32.0
RBTF	(7,613)	(7,610)	3	(0.0)	(7,988)	(9,068)	(1,080)	13.5
State/All Funds	**34,490**	**34,434**	**(56)**	**(0.2)**	**35,697**	**36,274**	**578**	**1.6**
Gross Collections	39,786	39,964	178	0.4	42,102	42,588	487	1.2
Refunds	(5,296)	(5,530)	(234)	4.4	(6,405)	(6,314)	91	(1.4)

Compared to the Mid-Year Update, 2006-07 All Funds income tax receipts are estimated to decrease by $56 million. The decrease reflects a modest decrease in payments from returns of $22 million for the 2005 tax year, higher than projected refunds of $234 million, and weaker estimated tax payments for tax year 2006 liabilities ($100 million) offset by stronger-than-expected withholding ($300 million).

Compared to the Mid-Year Update, 2007-08 All Funds income tax receipts are revised up by $578 million. The increase reflects higher withholding of $150 million, additional estimated tax payments related to tax year 2007 of $56 million, an increase in current return payments of $30 million related to legislation proposed with this Budget, higher delinquency payments of $50 million and stronger-than-anticipated payments related to the settlement of liabilities for tax year 2006. Settlement payments reflect higher-than-estimated payments from each extension and final return of $100 million and lower-than-estimated refunds ($160 million), for a total positive revision of $360 million. These increases are partially offset by an upward revision in the State/City offset of $69 million.

PERSONAL INCOME TAX (millions of dollars)							
	2007-08 Projected	2008-09 Projected	Annual Change	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change
General Fund	**22,258**	**23,518**	**1,260**	**24,902**	**1,384**	**26,313**	**1,412**
Gross Collections	42,588	45,551	2,963	48,514	2,963	51,335	2,821
Refunds	(6,314)	(6,726)	(412)	(7,145)	(419)	(7,689)	(544)
STAR	(4,948)	(5,601)	(653)	(6,126)	(525)	(6,421)	(296)
RBTF	(9,068)	(9,706)	(638)	(10,342)	(636)	(10,912)	(570)
State/All Funds	**36,274**	**38,825**	**2,551**	**41,369**	**2,544**	**43,646**	**2,277**
Gross Collections	42,588	45,551	2,963	48,514	2,963	51,335	2,821
Refunds	(6,314)	(6,726)	(412)	(7,145)	(419)	(7,689)	(544)

All Funds income tax receipts for 2008-09 of $38.8 billion are projected to increase $2.6 billion over the prior year. Gross receipts are projected to increase 7.0 percent and reflect withholding that is projected to grow by 6.6 percent ($1.9 billion). Total estimated taxes on prior and current year liabilities reflect the expectation of continued growth in incomes of wealthy taxpayers and will increase by an estimated 8.5 percent ($950 million). Payments from final returns are expected to increase 4.6 percent ($100 million). Delinquencies are projected to increase $38 million or 4.2 percent over the prior year. Net receipts, which include refunds, are projected to grow 7 percent and reflect growth in refunds of $412 million or 6.5 percent over the prior year, and a $195 million increase in the estimated State/City offset. Refunds are projected to be $795 million lower due to proposed law changes, the most important of which is the repeal of the school property tax credit as part of the expanded STAR proposal.

General Fund income tax receipts for 2008-09 of $23.5 billion are projected to increase by $1.3 billion, or 5.7 percent. General Fund receipts for 2008-09 reflect an increase in STAR deposits of $653 million associated with the second phase of the proposed STAR enhancements, and a $638 million increase in deposits to the RBTF.

All Funds income tax receipts for 2009-10 and 2010-11 are projected to reach $41.4 billion and $43.6 billion, respectively. General Fund receipts are projected at $24.9 billion and $26.3 billion, respectively.

USER TAXES AND FEES

USER TAXES AND FEES (millions of dollars)	2005-06 Actual	2006-07 Estimated	Annual Change	2007-08 Projected	Annual Change
General Fund	**8,639**	**8,305**	**(334)**	**8,633**	**328**
Sales Tax	7,978	7,647	(331)	7,934	287
Cigarette and Tobacco Taxes	404	404	0	447	43
Motor Vehicle Fees	23	0	(23)	0	0
Alcoholic Beverage Taxes	192	196	4	200	4
ABC License Fees	42	58	16	52	(6)
State/All Funds	**13,925**	**13,725**	**(200)**	**14,277**	**552**
Sales Tax	11,197	10,880	(317)	11,306	426
Cigarette and Tobacco Taxes	975	969	(6)	1,078	109
Motor Fuel	531	519	(12)	536	17
Motor Vehicle Fees	785	900	115	900	(0)
Highway Use Tax	160	157	(3)	157	(0)
Alcoholic Beverage Taxes	192	196	4	200	4
ABC License Fees	42	58	16	52	(7)
Auto Rental Tax	42	46	4	49	3

All Funds user taxes and fees receipts for 2006-07 are estimated to be $13.7 billion, a decrease of $200 million or 1.4 percent from 2005-06. The underlying sales tax base measured before the impact of law changes is estimated to increase by 3.5 percent, due largely to increases in employment, income and overall taxable consumption. The increased receipts from the expanding base will be offset by the full-year impact of the exemption for clothing and footwear costing less than $110, the cap on gasoline and diesel motor fuel and the increase in the vendor credit. Non-sales tax user taxes and fees are estimated to increase by $117 million from 2005-06 mainly due to the first full-year impact of motor vehicle fee increases imposed in 2005.

General Fund user taxes and fees receipts are expected to total $8.3 billion in 2006-07, a decrease of $334 million or 3.9 percent from 2005-06. The decrease largely reflects the full-year loss from the exemption of clothing and footwear costing less than $110, the sales tax cap on gasoline and diesel motor fuel and the increase in the sales tax vendor credit allowance.

All Funds user taxes and fees receipts for 2007-08 are projected to be nearly $14.3 billion, an increase of $552 million or 4.0 percent from 2006-07. General Fund user taxes and fees receipts are projected to total $8.6 billion in 2007-08, an increase of $328 million or 3.9 percent from 2006-07. This increase largely reflects the projected growth in the sales tax base (4.1 percent) along with the enforcement of Tax Law provisions governing the taxation of various products sold by Native Americans.

USER TAXES AND FEES CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS (millions of dollars)	2006-07 Mid-Year Update	2006-07 Executive Budget	Change	Percent Change	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change
General Fund	**8,216**	**8,305**	**89**	**1.1**	**8,525**	**8,633**	**108**	**1.3**
Sales Tax	7,567	7,647	80	1.1	7,870	7,934	64	0.8
Cigarette and Tobacco Taxes	402	404	3	0.6	411	447	36	8.7
Motor Vehicle Fees	0	0	0	0.0	0	0	0	0.0
Alcoholic Beverage Taxes	191	196	5	2.7	192	200	8	4.0
ABC License Fees	57	58	1	1.8	52	52	1	1.0
State/All Funds	**13,574**	**13,725**	**151**	**1.1**	**14,151**	**14,277**	**126**	**0.9**
Sales Tax	10,782	10,880	98	0.9	11,325	11,306	(19)	(0.2)
Cigarette and Tobacco Taxes	964	969	5	0.5	989	1,078	89	8.9
Motor Fuel	521	519	(2)	(0.3)	524	536	12	2.4
Motor Vehicle Fees	854	900	46	5.4	862	900	38	4.4
Highway Use Tax	161	157	(4)	(2.4)	160	157	(4)	(2.3)
Alcoholic Beverage Taxes	191	196	5	2.8	192	200	8	4.1
ABC License Fees	57	58	1	1.8	52	52	0	0.0
Auto Rental Tax	45	46	1	2.4	47	49	2	3.2

All Funds user taxes and fees are projected to be $151 million greater in 2006-07 than was projected in the Mid-Year Update; the revision is mainly due to an increase in motor vehicle fee receipts and an upward revision in sales tax collections based on results to date. All Funds user taxes and fees are projected to be $126 million greater in 2007-08 than was projected in the Mid-Year Update; this revision is mainly due to the unanticipated increases in the receipts to date from the sales tax, cigarette tax and motor vehicle fees.

USER TAXES AND FEES (millions of dollars)	2007-08 Projected	2008-09 Projected	Annual Change	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change
General Fund	**8,633**	**8,915**	**282**	**9,228**	**313**	**9,554**	**325**
Sales Tax	7,934	8,220	286	8,529	309	8,860	331
Cigarette and Tobacco Taxes	447	443	(4)	438	(5)	432	(6)
Motor Vehicle Fees	0	0	0	0	0	0	0
Alcoholic Beverage Taxes	200	204	4	209	5	214	5
ABC License Fees	52	48	(4)	52	4	48	(4)
State/All Funds	**14,277**	**14,699**	**422**	**15,201**	**502**	**15,703**	**502**
Sales Tax	11,306	11,713	407	12,154	441	12,625	471
Cigarette and Tobacco Taxes	1,078	1,068	(10)	1,054	(14)	1,038	(15)
Motor Fuel	536	539	3	542	3	544	3
Motor Vehicle Fees	900	913	13	971	58	1,008	37
Highway Use Tax	157	164	7	167	3	171	5
Alcoholic Beverage Taxes	200	204	4	209	5	214	5
ABC License Fees	52	48	(4)	52	4	48	(4)
Auto Rental Tax	49	50	2	53	3	55	2

All Funds user taxes and fees in 2008-09 are projected to grow an additional $422 million, with further growth of $502 million in 2009-10 and $502 million in 2010-11. Ongoing growth is primarily due to the expectation of continued economic growth that fosters growth in the sales tax base.

Business Taxes

BUSINESS TAXES (millions of dollars)	2005-06 Actual	2006-07 Estimated	Annual Change	2007-08 Projected	Annual Change
General Fund	**5,084**	**6,027**	**943**	**6,333**	**306**
Corporate Franchise Tax	2,664	3,545	881	3,768	223
Corporation & Utilities Tax	591	619	28	618	(1)
Insurance Tax	987	1,113	126	1,150	37
Bank Tax	842	750	(92)	797	47
State/All Funds	**7,087**	**8,123**	**1,036**	**8,450**	**327**
Corporate Franchise Tax	3,052	4,070	1,018	4,265	195
Corporation & Utilities Tax	832	817	(15)	816	(1)
Insurance Tax	1,083	1,226	143	1,259	33
Bank Tax	974	905	(69)	926	21
Petroleum Business Tax	1,146	1,105	(41)	1,184	79

All Funds business tax receipts for 2006-07 are estimated at $8.1 billion, an increase of more than $1 billion, or 14.6 percent over the prior year. The increase is primarily due to significant growth in the corporate franchise tax of 33.3 percent and the insurance tax of 13.2 percent. The growth in the corporate franchise tax is attributable to growth in current year tax receipts of 21 percent, extraordinary growth in audit and compliance related receipts of more than 78 percent, or roughly $500 million, and refund payouts that are below historical trends. The 21 percent growth in current year non-audit tax receipts remains robust, following last year's increase of 40 percent. The growth in audit receipts is attributable to the settlement of multi-year audit issues with a significant number of large taxpayers.

ALL FUNDS BUSINESS TAX AUDIT AND NONAUDIT RECEIPTS ($ millions)	2002-03	2003-04	2004-05	2005-06	2006-07
Corporate Franchise Tax	**1,613**	**1,700**	**2,110**	**3,052**	**4,070**
Audit	331	232	397	652	1,165
Non-Audit	1,282	1,469	1,713	2,400	2,905
Corporation and Utilties Taxes	**1,091**	**882**	**827**	**832**	**817**
Audit	49	30	43	101	60
Non-Audit	1,042	852	784	731	757
Insurance Taxes	**776**	**1,031**	**1,108**	**1,083**	**1,226**
Audit	27	28	32	33	47
Non-Audit	749	1,003	1,076	1,050	1,179
Bank Tax	**481**	**342**	**675**	**974**	**905**
Audit	62	39	24	330	242
Non-Audit	420	303	651	644	663
Total Business Taxes	**3,960**	**3,955**	**4,721**	**5,941**	**7,018**
Total Audit	468	328	497	1,116	1,514
Total Non-Audit	3,492	3,626	4,224	4,825	5,504

The growth in 2006-07 All Funds corporate franchise and insurance taxes receipts over 2005-06 is offset by declines in the All Funds receipts from the bank tax of 7.1 percent, the corporation and utilities taxes of 1.8 percent, and the petroleum business tax of 3.5 percent. The overall decline in bank tax receipts reflect modest growth in the ongoing base of bank tax receipts of 2.9 percent over the prior year, refund payouts that are below historical levels, and a 26.6 percent decline in audit receipts from the prior year. Prior year audit receipts of

$330 million reflect roughly $200 million of receipts from the Department of Taxation and Finance's Voluntary Compliance Initiative (VCI) and significantly boosted the bank tax base. Results to date this year reflect significant receipts received in April and a return to more normal audit amounts for the remaining months of the year. The overall 1.8 percent decrease in corporation and utilities taxes reflects growth of 3.5 percent in non-audit receipts and a decline of 40.6 percent in audit receipts from 2005-06 levels. Year-to-date trends suggest increases in non-audit receipts from utilities will be offset by unexpected decreases in receipts from the telecommunications industry.

All Funds business tax receipts for 2007-08 of $8.5 billion are projected to increase by $327 million or 4.0 percent over the prior year. The projections reflect $455 million of Executive Budget initiatives that would make the reporting of abusive tax shelters permanent, address loopholes in the Tax Law that allow taxpayers to shelter income in unintended ways, conform certain State provisions to Federal law and to standard practices in other states, and increase the low income housing credit. Non-audit business tax receipts before these Executive Budget initiatives are projected to increase 6.2 percent. The overall increase reflects a moderation in the growth of non-audit corporate franchise tax receipts to roughly 10 percent; growth in corporation and utilities taxes of 4.1 percent that is attributable to modest growth in receipts from utilities, and a 7.2 percent increase in the petroleum business tax. Non-audit receipts from the insurance and bank taxes are projected to remain roughly flat, reflecting current year liabilities, the volatility of the bank tax and projected industry trends. Audit receipts related to All Funds business taxes are projected to decline by approximately 35 percent or roughly $535 million from the historical levels estimated for 2006-07. The largest projected declines in audit receipts are reflected in the corporation franchise and bank taxes.

General Fund business tax receipts for 2006-07 of $6 billion are estimated to increase by $943 million, or 18.5 percent over 2005-06. Business tax receipts deposited to the General Fund reflect the All Funds trends discussed above.

General Fund business tax receipts for 2007-08 of $6.3 billion are projected to increase $306 million, or 5.1 percent over the prior year. Business tax receipts deposited to the General Fund reflect the All Funds trends and the Executive Budget initiatives discussed above.

BUSINESS TAXES CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS (millions of dollars)	2006-07 Mid-Year Update	2006-07 Executive Budget	Change	Percent Change	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change
General Fund	**5,899**	**6,027**	**128**	**2.2**	**5,343**	**6,333**	**990**	**18.5**
Corporate Franchise Tax	3,477	3,545	68	2.0	3,038	3,768	730	24.0
Corporation & Utilities Tax	593	619	26	4.4	610	618	8	1.3
Insurance Tax	1,083	1,113	30	2.8	1,105	1,150	45	4.1
Bank Tax	746	750	4	0.5	590	797	207	35.1
State/All Funds	**7,995**	**8,123**	**128**	**1.6**	**7,306**	**8,450**	**1,144**	**15.7**
Corporate Franchise Tax	4,007	4,070	63	1.6	3,413	4,265	852	25.0
Corporation & Utilities Tax	791	817	26	3.3	810	816	6	0.7
Insurance Tax	1,191	1,226	35	2.9	1,212	1,259	47	3.9
Bank Tax	881	905	24	2.7	692	926	234	33.8
Petroleum Business Tax	1,125	1,105	(20)	(1.7)	1,179	1,184	5	0.4

Compared to the Mid-Year Update, 2006-07 All Funds business tax receipts are estimated to be $8.1 billion or higher by $128 million (1.6 percent). The increase in the estimate reflects year-to-date trends in the business taxes, which now suggest slightly higher growth in the corporate franchise tax, corporation and utilities taxes, insurance tax and bank tax, offset by lower-than-estimated receipts from the petroleum business tax. Nearly all the business tax increase, or $128 million, is attributable to the General Fund.

All Funds business tax receipts for 2007-08 are more than $1.1 billion or 15.7 percent higher than the Mid-Year Update. The increase reflects the trends described above, and the first-year impact of Executive Budget initiatives of $455 million.

BUSINESS TAXES (millions of dollars)	2007-08 Projected	2008-09 Projected	Annual Change	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change
General Fund	**6,333**	**6,604**	**271**	**6,885**	**281**	**7,160**	**275**
Corporate Franchise Tax	3,768	3,969	201	4,209	240	4,441	232
Corporation & Utilities Tax	618	623	5	628	5	632	4
Insurance Tax	1,150	1,180	30	1,216	36	1,255	39
Bank Tax	797	832	35	832	0	832	0
State/All Funds	**8,450**	**8,778**	**328**	**9,097**	**319**	**9,411**	**314**
Corporate Franchise Tax	4,265	4,491	226	4,761	270	5,023	262
Corporation & Utilities Tax	816	821	5	826	5	831	5
Insurance Tax	1,259	1,293	34	1,331	38	1,374	43
Bank Tax	926	960	34	960	0	960	0
Petroleum Business Tax	1,184	1,213	29	1,219	6	1,223	4

All Funds business tax receipts for 2008-09, 2009-10 and 2010-11 reflect trend growth that is determined in part by the expected level of corporate profits, the increase in taxable insurance premiums, increases in electric utility consumption prices and the consumption of telecommunications services. In addition, estimates of the fully effective impact of the Executive Budget initiatives described above impact out-year growth. Business tax receipts will increase to $8.8 billion (3.9 percent) in 2008-09, $9.1 billion (3.6 percent) in 2009-10 and $9.4 billion (3.5 percent) in 2010-11. General Fund business tax receipts will reflect the factors outlined above and the out-year impact of Executive Budget initiatives. General Fund business tax receipts over this period will increase to $6.6 billion (4.3 percent) in 2008-09, $6.9 billion (4.3 percent) in 2009-10 and $7.2 billion (4.0 percent) in 2010-11.

Other Taxes

OTHER TAXES (millions of dollars)					
	2005-06 Actual	2006-07 Estimated	Annual Change	2007-08 Projected	Annual Change
General Fund	**881**	**1,077**	**196**	**1,060**	**(17)**
Estate Tax	854	1,065	211	1,039	(26)
Gift Tax	2	(10)	(12)	0	10
Real Property Gains Tax	1	1	0	0	(1)
Pari-mutuel Taxes	23	20	(3)	20	0
All Other Taxes	1	1	(0)	1	0
State/All Funds	**1,819**	**2,027**	**208**	**1,960**	**(67)**
Estate Tax	854	1,065	211	1,039	(26)
Gift Tax	2	(10)	(12)	0	10
Real Property Gains Tax	1	1	0	0	(1)
Real Estate Transfer Tax	938	950	12	900	(50)
Pari-mutuel Taxes	23	20	(3)	20	0
All Other Taxes	1	1	(0)	1	0

All Funds other tax receipts for 2006-07 are estimated to be more than $2.0 billion, up $208 million or 11.4 percent from 2005-06 receipts, reflecting strong growth in estate tax receipts as well as continued strength in the real estate transfer tax. The growth is partially offset by a major gift tax refund. General Fund other tax receipts are expected to total nearly $1.1 billion in fiscal year 2006-07, an increase of $196 million.

All Funds other tax receipts in 2007-08 are projected to be nearly $2.0 billion, down $67 million or 3.3 percent from 2006-07, reflecting modest retrenchment in real estate transfer tax receipts as well as a return to a normal estate tax collection pace. General Fund receipts for 2007-08 are projected to total $1.1 billion or a $17 million decline with estate tax collections expected to fall off the current year peak as the number of large estates closing in the year returns to a more normal level.

OTHER TAXES CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS (millions of dollars)								
	2006-07 Mid-Year Update	2006-07 Executive Budget	Change	Percent Change	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change
General Fund	**924**	**1,077**	**153**	**16.5**	**994**	**1,060**	**66**	**6.6**
Estate Tax	912	1,065	153	16.8	970	1,039	69	7.1
Gift Tax	(11)	(10)	1	(9.1)	0	0	0	0.0
Real Property Gains Tax	1	1	0	0.0	0	0	0	0.0
Pari-mutuel Taxes	21	20	(1)	(6.2)	23	20	(3)	(13.8)
All Other Taxes	1	1	(0)	(30.0)	1	1	0	0.0
State/All Funds	**1,774**	**2,027**	**253**	**14.3**	**1,844**	**1,960**	**116**	**6.3**
Estate Tax	912	1,065	153	16.8	970	1,039	69	7.1
Gift Tax	(11)	(10)	1	(9.1)	0	0	0	0.0
Real Property Gains Tax	1	1	0	0.0	0	0	0	0.0
Real Estate Transfer Tax	850	950	100	11.8	850	900	50	5.9
Pari-mutuel Taxes	21	20	(1)	(6.2)	23	20	(3)	(13.8)
All Other Taxes	1	1	(0)	(30.0)	1	1	0	0.0

Other tax receipt estimates for 2006-07 have been revised up $253 million from the Mid-Year Update estimate. Receipts estimates for the estate tax and the real estate transfer tax have increased significantly, reflecting stronger-than-anticipated growth in receipts from large estates and the strength of the Downstate commercial real estate market.

Other taxes receipts projections for 2007-08 are revised up by $116 million from the Mid-Year Update, reflecting continued strength in receipts from large estates and higher real estate sales than were forecast in the Mid-Year Update.

OTHER TAXES (millions of dollars)							
	2007-08 Projected	2008-09 Projected	Annual Change	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change
General Fund	**1,060**	**1,186**	**126**	**1,317**	**131**	**1,400**	**83**
Estate Tax	1,039	1,165	126	1,296	131	1,379	83
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Pari-mutuel Taxes	20	20	0	20	0	20	0
All Other Taxes	1	1	0	1	0	1	0
State/All Funds	**1,960**	**2,086**	**126**	**2,267**	**181**	**2,350**	**83**
Estate Tax	1,039	1,165	126	1,296	131	1,379	83
Gift Tax	0	0	0	0	0	0	0
Real Property Gains Tax	0	0	0	0	0	0	0
Real Estate Transfer Tax	900	900	0	950	50	950	0
Pari-mutuel Taxes	20	20	0	20	0	20	0
All Other Taxes	1	1	0	1	0	1	0

The 2008-09 All Funds receipts projection for other taxes is slightly more than $2.0 billion, up $126 million or 6.4 percent from 2007-08 receipts. Growth in the estate tax is projected to follow expected increases in household net worth and receipts from the real estimate transfer tax continue to reflect the slowdown in the housing market.

The 2009-10 All Funds receipts projection for other taxes is nearly $2.3 billion, up $181 million or 8.7 percent from 2008-09 receipts. The forecast reflects continued increases in household net worth as well as in the value of real property transfers.

The 2010-11 All Funds receipts projection for other taxes is nearly $2.4 billion, up $83 million (3.7 percent) from 2009-10 as continued moderate growth in estate tax collections is expected.

Miscellaneous Receipts and Federal Grants

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)					
	2005-06 Actual	2006-07 Estimated	Annual Change	2007-08 Projected	Annual Change
General Fund	**2,029**	**2,845**	**816**	**2,910**	**65**
Miscellaneous Receipts	2,029	2,665	636	2,851	186
Federal Grants	0	180	180	59	(121)
State Funds	**18,084**	**18,559**	**475**	**19,957**	**1,398**
Miscellaneous Receipts	18,082	18,379	296	19,897	1,518
Federal Grants	2	180	179	60	(121)
All Funds	**53,384**	**54,722**	**1,338**	**57,355**	**2,633**
Miscellaneous Receipts	18,255	18,538	283	20,044	1,506
Federal Grants	35,129	36,184	1,055	37,311	1,127

All Funds miscellaneous receipts include moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are estimated at more than $54.7 billion in 2006-07, an increase of $1.3 billion from 2005-06 results. All Funds miscellaneous receipts are projected to total $57.4 billion in 2007-08, an increase of more than $2.6 billion from the current year. Other Funds miscellaneous receipts are projected to increase by approximately $1.3 billion comprised of $1 billion in capital projects receipts and $300 million in Special Revenue Funds receipts. The capital projects receipts increase was primarily driven by growth in the EXCEL and AMD programs ($700 million and $100 million, respectively) as well as increases in other bonded projects. The Special Revenue Funds increase is primarily driven by growth in lottery revenues, including from Video Lottery Terminals (VLTs) ($429 million), SUNY revenue ($173 million) and HCRA surcharge revenues ($200 million). This growth is partially offset by a decline in proceeds from health care conversions, which the State uses to finance Medicaid and public health programs ($500 million).

General Fund miscellaneous receipts collections, including Federal grants, are estimated to be more than $2.8 billion in 2006-07, up $816 million from 2005-06 receipts. This increase is primarily due to a larger transfer of abandoned property collections and receipts from the local government revenue and disbursement program.

General Fund miscellaneous receipts collections in 2007-08 are projected to reach approximately $2.9 billion, up $65 million from 2006-07 results, due to increases in collections from licenses and fees and the local government revenue and disbursement program, partially offset by decreases in receipts from investment income.

MISCELLANEOUS RECEIPTS & FEDERAL GRANTS CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS (millions of dollars)								
	2006-07 Mid-Year Update	2006-07 Executive Budget	Change	Percent Change	2007-08 Mid-Year Update	2007-08 Executive Budget	Change	Percent Change
General Fund	**3,090**	**2,845**	**(245)**	**(7.9)**	**2,241**	**2,910**	**669**	**29.8**
Miscellaneous Receipts	2,910	2,665	(245)	(8.4)	2,181	2,851	670	30.7
Federal Grants	180	180	(0)	(0.1)	60	59	(1)	(1.4)
State Funds	**18,860**	**18,559**	**(301)**	**(1.6)**	**19,422**	**19,957**	**535**	**2.8**
Miscellaneous Receipts	18,679	18,379	(301)	(1.6)	19,361	19,897	535	2.8
Federal Grants	180	180	0	0.0	60	60	(1)	(1.1)
All Funds	**55,043**	**54,722**	**(321)**	**(0.6)**	**57,241**	**57,355**	**114**	**0.2**
Miscellaneous Receipts	18,839	18,538	(301)	(1.6)	19,508	20,044	535	2.7
Federal Grants	36,204	36,184	(20)	(0.1)	37,733	37,311	(422)	(1.1)

General Fund miscellaneous receipts and Federal grants in 2006-07 have been revised down by $245 million from the Mid-Year Update, primarily due to the movement of payments from the Power Authority originally scheduled for the 2006-07 State fiscal year to 2007-08. General Fund miscellaneous receipts projections for 2007-08 are revised up by approximately $669 million from the Mid-Year Update, primarily due to the timing of the Power Authority payment and increases in investment income and other transactions.

State Funds and All Funds miscellaneous receipts in 2006-07 have been revised downward by $301 million and $321 million, respectively, from the Mid-Year Update, driven primarily by the General Fund revisions described above, augmented by Other State Funds revisions including SUNY tuitions and VLT revenues based on experience to date.

State Funds and All Funds projections for 2007-08 are up by $535 million and $114 millions, respectively, from the Mid-Year Update, primarily due to the General Fund growth described above, partially offset by anticipated delays in Special Revenue Fund receipts based upon historical trends.

MISCELLANEOUS RECEIPTS AND FEDERAL GRANTS (millions of dollars)							
	2007-08 Projected	2008-09 Projected	Annual Change	2009-10 Projected	Annual Change	2010-11 Projected	Annual Change
General Fund	**2,910**	**2,472**	**(438)**	**2,516**	**44**	**2,518**	**2**
Miscellaneous Receipts	2,851	2,413	(438)	2,456	44	2,459	2
Federal Grants	59	59	0	59	0	59	0
State Funds	**19,957**	**20,867**	**910**	**20,513**	**(354)**	**20,848**	**335**
Miscellaneous Receipts	19,897	20,807	910	20,454	(354)	20,788	335
Federal Grants	60	60	0	60	0	60	0
All Funds	**57,355**	**60,040**	**2,685**	**61,371**	**1,331**	**63,532**	**2,161**
Miscellaneous Receipts	20,044	20,956	912	20,600	(356)	20,933	333
Federal Grants	37,311	39,084	1,773	40,771	1,687	42,599	1,828

In 2008-09, General Fund miscellaneous receipts and Federal grants collections are projected to be nearly $2.5 billion, down $438 million from 2007-08. This decrease results from the loss of bond issuance charges from the base, as well as the loss of one-time revenue actions and a decrease in the value of the local government revenue and disbursement program. State Funds miscellaneous receipt and Federal grants collections are projected to be nearly $20.9 billion, up $910 million from 2007-08. State Funds miscellaneous receipts are projected to be $20.8 billion, up $910 million from 2007-08. This growth is composed of

Other State Funds growth of $1.3 billion, offset by the projected decline in General Fund receipts of $438 million described above. The Other State Funds growth is driven by projected increases in lottery revenues, including from VLTs ($539 million), HCRA financing sources ($500 million) and capital projects receipts, primarily bond proceeds ($216 million).

All Funds miscellaneous receipts are projected to be nearly $21 billion, up $912 million from the prior year, driven by the State Funds growth described above.

General Fund miscellaneous receipts, including Federal grants, in 2009-10 are projected to be more than $2.5 billion, up approximately $44 million from the prior year. This slight increase is primarily due to projected collections from other transactions. State Funds miscellaneous receipt collections are projected to be $20.5 billion, down $354 million from 2008-09. All Funds miscellaneous receipts are projected to be nearly $61.4 billion, up $1.3 billion from the prior year, resulting from increased Federal grants receipts.

In 2010-11, General Fund receipts are projected to be more than $2.5 billion, an increase of $2 million from 2009-10. State Funds miscellaneous receipt collections are projected to be more than $20.8 billion, up $335 million from 2009-10. All Funds miscellaneous receipts are projected to be more than $63.5 billion, up $2.2 billion from the prior year.

ELIMINATING LOOPHOLES AND OTHER TAX INITIATIVES

The 2007-08 Budget contains no tax increases. Measures are included to ensure that taxpayers are properly reflecting New York taxable income and that unintended and anachronistic tax statutes are changed to eliminate tax loopholes. In addition, this Budget proposes several tax reduction initiatives.

Local Property Tax

- Enhance the School Tax Relief (STAR) program to increase basic and enhanced exemption amounts for all but the wealthiest homeowners (with incomes below $235,000), to create a new enriched middle income basic exemption based on income and region, and increase the STAR credit amounts provided through the New York City personal income tax.

Personal Income Tax

- Provide a new personal income tax deduction of up to $1,000 per child for primary and secondary education tuition.
- Provide the Commissioner of Taxation and Finance with authority similar to that now provided to the Federal Secretary of Treasury to end practices used by New York partnerships to close a loophole that allows nonresidents to avoid paying personal income.
- Require certain corporations that are Federal S Corporations to also be New York S corporations to close a loophole that allows resident individuals to place assets into New York C Corporations and avoid the personal income tax.
- Conform the treatment of taxpayers that itemize State and local sales and compensating use tax to taxpayers that itemize State and local income taxes.

- Restructure the fees imposed on Limited Liability Companies from a per member fee to one that is based on income to more clearly reflect an LLC's level of New York activity while generating the same amount of revenue as the LLC fees that are in effect through tax year 2006.

Business Taxes

- Increase the aggregate amount of low income housing tax credits the Commissioner of Housing and Community Renewal may allocate by $4 million annually and make the annual increase permanent.
- Continue to deter the use of tax shelters by making permanent the authorization for the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable and listed transactions (the same provisions apply to the personal income tax).
- Require corporations that conduct substantial intercorporate transactions with one another to file a combined, rather than separate, corporate franchise tax return.
- Conform to the practices of 18 other states that have decoupled from the Federal deduction related to qualified production activities and require taxpayers to add back income from this deduction for New York tax purposes.
- Close a loophole and conform to Federal rules by eliminating the deduction for certain subsidiary dividends received by a parent company from a real estate investment trust (REIT) or regulated investment company (RIC) to ensure that the shareholders of the REIT or RIC pay tax on the income earned by the REIT or RIC.
- Close a loophole that allows banks that use subsidiaries that are grandfathered corporate taxpayers under 1985 provisions to shelter income by revoking the election for companies that have become inactive, cease to file a corporate tax return, have a change in ownership, change their business purpose, or are a party to inter-corporate transactions.
- Conform to Federal rules and the practices of other states with respect to banking corporations that allow certain taxpayers to deduct only bad debts that have actually been written-off (the "direct write-off method").
- Conform to treatment under the corporate franchise tax, by requiring the add back of expenses related to subsidiary capital under the bank tax, and eliminating the 20 percent reduction in the wage factor portion of the apportionment formula to ensure the bank tax appropriately reflects a bank's presence in New York.
- Extend for two years, the transitional provisions relating to the enactment and implementation of the Federal Gramm-Leach-Bliley Act of 1999 to allow certain corporations that were taxed under the corporate franchise tax or bank tax in 1999 to temporarily maintain that status.
- Eliminate the competitive advantage afforded to certain cooperative insurance companies that have expanded their activities beyond those intended by limiting the exemption under the insurance tax for cooperative insurance companies.

Other Actions

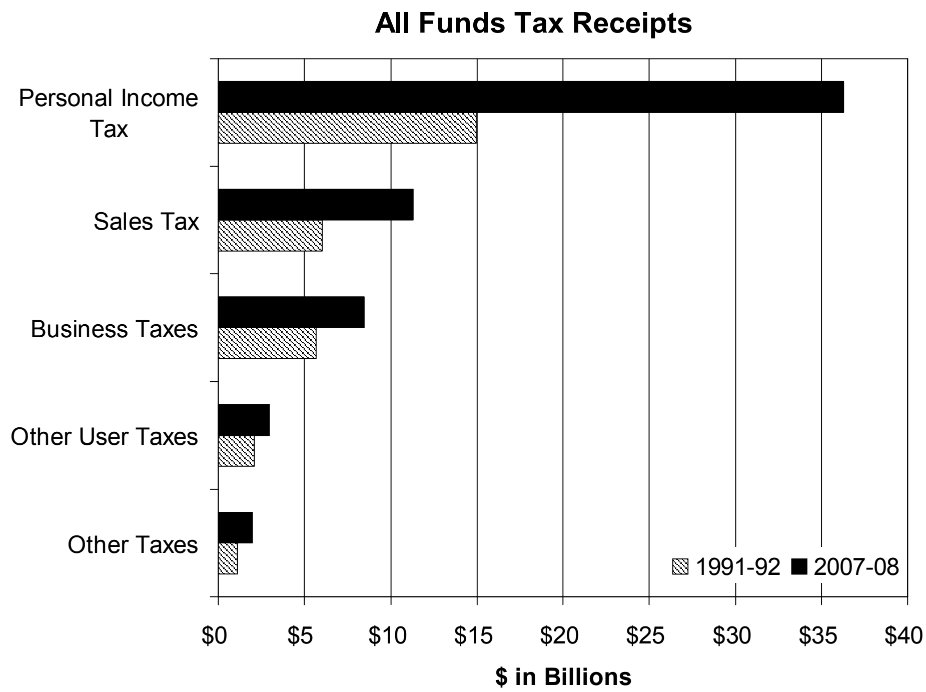
- Extend for one year the lower tax rates and rules governing simulcasting of out-of-State races.
- Extend the sunset of Quick Draw by one year from May 31, 2007, to May 31, 2008.
- Extend the authority of the Department of Taxation and Finance to collect unpaid child support.
- Require travel companies that rent hotel rooms over the Internet to collect the sales tax on the markups and service fees charged to customers.

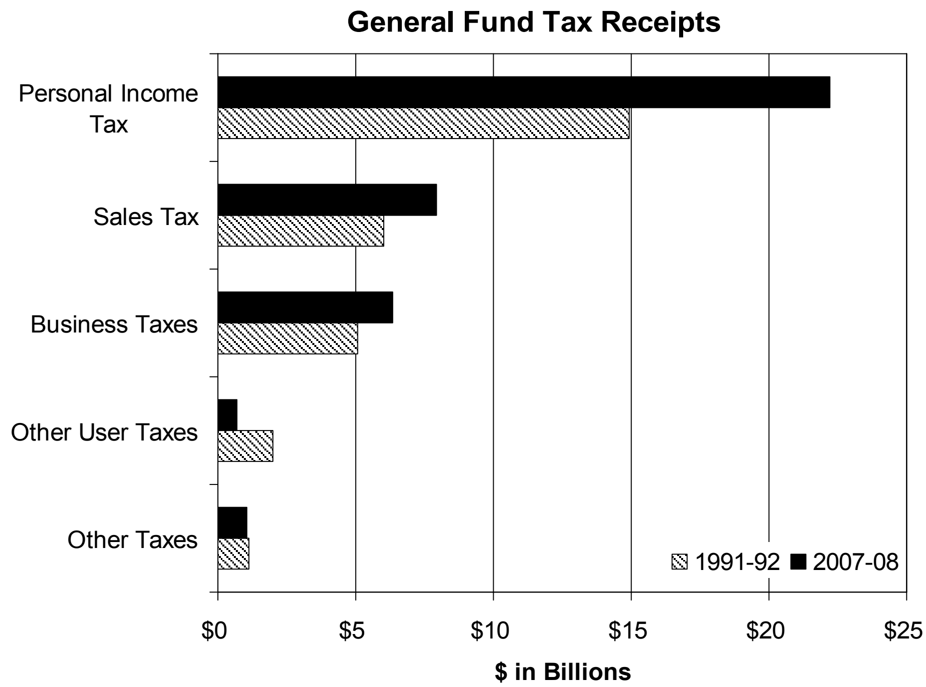
RECOMMENDED GENERAL FUND LEGISLATION
($ in millions)

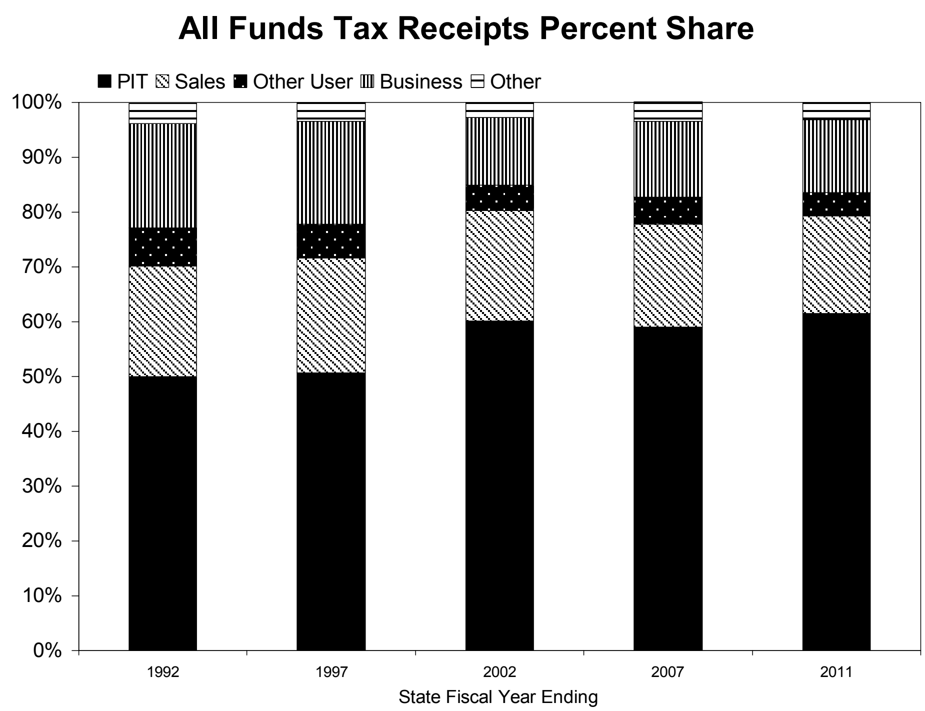
	2007-08	2008-09	2009-10	2010-11
LOOPHOLE CLOSERS TOTAL	**449**	**567**	**537**	**537**
Personal Income Tax	**36**	**181**	**151**	**151**
Extend/Restructure Higher LLC Fees	30	30	30	30
Make Reporting of Tax Shelters Permanent	6	6	6	6
S Corporation Election	-	100	100	100
Sales Tax Itemized Deduction	-	30	-	-
Partnership Tax Abuse	-	15	15	15
User Taxes and Fees	**15**	**20**	**20**	**20**
Tax Full Cost of Hotel Sales Sold by Internet Travel Companies	-	-	-	-
Alcohol Tax Enforcement Extender	15	20	20	20
Business Taxes	**398**	**366**	**366**	**366**
Make Reporting of Tax Shelters Permanent	10	10	10	10
Corporate Franchise Tax Combined Filing	185	185	185	185
Decouple from Federal Deduction for Qualified Production Activities	25	30	30	30
Real Estate Investment Trusts	88	70	70	70
Grandfathered Corporations	19	15	15	15
Conform to Federal Bad Debt Deduction	13	10	10	10
Require Add Back of Expenses of Subsidiary Capital & Eliminate Discounted Wage Factor	35	28	28	28
Extend Gramm-Leach Bliley/Bank Tax Provisions (2 years)	-	-	-	-
Cooperative Insurance Companies	23	18	18	18
All Other Taxes & Miscellaneous Receipts	**-**	**-**	**-**	**-**
Pari-Mutuel Extender	-	-	-	-
Quick Draw Extender	-	-	-	-
Child Support Enforcement Extender	-	-	-	-
TAX REDUCTIONS TOTAL	**(1,215)**	**(1,046)**	**(1,400)**	**(1,518)**
Expanded STAR Program	(1,211)	(1,688)	(2,038)	(2,152)
- Eliminating the School Property Tax Credit	-	675	675	675
Non-public School Deduction	-	(25)	(25)	(25)
Low Income Housing - Permanent	(4)	(8)	(12)	(16)

GENERAL FUND CASH IMPACT OF SIGNIFICANT RECENT AND RECOMMENDED TAX ACTIONS (millions of dollars)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Income tax temporary rate increase	1,162	1,535	1,482	435	0	0	0	0
1/4 percent sales tax temporary increase	445	584	129	0	0	0	0	0
Elimination of Sales tax on clothing	441	586	583	605	0	0	0	0
Elimination of Loopholes (proposed)	0	0	0	0	449	567	537	537
Governor's Revised STAR Program (proposed)	0	0	0	0	(1,211)	(1,688)	(2,038)	(2,152)
Other Actions (proposed)	0	0	0	0	(4)	(33)	(37)	(41)




General Fund Tax Receipts
Personal Income Tax
Sales Tax
Business Taxes
Other User Taxes
Other Taxes
1991-92
2007-08
$0
$5
$10
$15
$20
$25
$ in Billions


All Funds Tax Receipts Percent Share
PIT
Sales
Other User
Business
Other
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
1992
1997
2002
2007
2011
State Fiscal Year Ending

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	20,700	3,213	0	6,900	30,813
User taxes and fees	8,639	1,491	1,179	2,615	13,924
Sales and use tax	7,978	604	0	2,615	11,197
Cigarette and tobacco taxes	404	571	0	0	975
Motor fuel tax	0	111	420	0	531
Motor vehicle fees	23	205	557	0	785
Highway Use tax	0	0	160	0	160
Alcoholic beverages taxes	192	0	0	0	192
Alcoholic beverage control license fees	42	0	0	0	42
Auto rental tax	0	0	42	0	42
Business taxes	5,084	1,353	650	0	7,087
Corporation franchise tax	2,664	388	0	0	3,052
Corporation and utilities tax	591	223	18	0	832
Insurance taxes	987	96	0	0	1,083
Bank tax	842	132	0	0	974
Petroleum business tax	0	514	632	0	1,146
Other taxes	881	0	112	826	1,819
Estate tax	854	0	0	0	854
Gift tax	2	0	0	0	2
Real property gains tax	1	0	0	0	1
Real estate transfer tax	0	0	112	826	938
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	35,304	6,057	1,941	10,341	53,643
Miscellaneous receipts	2,029	13,767	1,714	745	18,255
Federal grants	0	33,363	1,766	0	35,129
Total	37,333	53,187	5,421	11,086	107,027

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,828	3,996	0	7,610	34,434
User taxes and fees	8,305	1,616	1,265	2,539	13,725
Sales and use tax	7,647	694	0	2,539	10,880
Cigarette and tobacco taxes	404	565	0	0	969
Motor fuel tax	0	109	410	0	519
Motor vehicle fees	0	248	652	0	900
Alcoholic beverages taxes	196	0	0	0	196
Highway Use tax	0	0	157	0	157
Alcoholic beverage control license fees	58	0	0	0	58
Auto rental tax	0	0	46	0	46
Business taxes	6,027	1,467	629	0	8,123
Corporation franchise tax	3,545	525	0	0	4,070
Corporation and utilities tax	619	181	17	0	817
Insurance taxes	1,113	113	0	0	1,226
Bank tax	750	155	0	0	905
Petroleum business tax	0	493	612	0	1,105
Other taxes	1,077	0	147	803	2,027
Estate tax	1,065	0	0	0	1,065
Gift tax	(10)	0	0	0	(10)
Real property gains tax	1	0	0	0	1
Real estate transfer tax	0	0	147	803	950
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	38,237	7,079	2,041	10,952	58,309
Miscellaneous receipts	2,665	12,644	2,565	664	18,538
Federal grants	180	34,244	1,760	0	36,184
Total	41,082	53,967	6,366	11,616	113,031

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2007-2008
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,258	4,948	0	9,068	36,274
User taxes and fees	8,633	1,713	1,281	2,650	14,277
Sales and use tax	7,934	722	0	2,650	11,306
Cigarette and tobacco taxes	447	631	0	0	1,078
Motor fuel tax	0	112	424	0	536
Motor vehicle fees	0	248	652	0	900
Alcoholic beverages taxes	200	0	0	0	200
Highway Use tax	0	0	157	0	157
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	0	48	0	48
Business taxes	6,333	1,444	673	0	8,450
Corporation franchise tax	3,768	497	0	0	4,265
Corporation and utilities tax	618	181	17	0	816
Insurance taxes	1,150	109	0	0	1,259
Bank tax	797	129	0	0	926
Petroleum business tax	0	528	656	0	1,184
Other taxes	1,060	0	212	688	1,960
Estate tax	1,039	0	0	0	1,039
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	688	900
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	38,284	8,105	2,166	12,406	60,961
Miscellaneous receipts	2,851	12,937	3,585	671	20,044
Federal grants	59	35,256	1,996	0	37,311
Total	41,194	56,298	7,747	13,077	118,316

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2008-2009
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	23,518	5,601	0	9,706	38,825
User taxes and fees	8,915	1,738	1,300	2,746	14,699
Sales and use tax	8,220	747	0	2,746	11,713
Cigarette and tobacco taxes	443	625	0	0	1,068
Motor fuel tax	0	113	426	0	539
Motor vehicle fees	0	253	660	0	913
Alcoholic beverages taxes	204	0	0	0	204
Highway Use tax	0	0	164	0	164
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	50	0	50
Business taxes	6,604	1,486	688	0	8,778
Corporation franchise tax	3,969	522	0	0	4,491
Corporation and utilities tax	623	181	17	0	821
Insurance taxes	1,180	113	0	0	1,293
Bank tax	832	128	0	0	960
Petroleum business tax	0	542	671	0	1,213
Other taxes	1,186	0	212	688	2,086
Estate tax	1,165	0	0	0	1,165
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	688	900
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	40,223	8,825	2,200	13,140	64,388
Miscellaneous receipts	2,413	14,063	3,800	680	20,956
Federal grants	59	36,993	2,032	0	39,084
Total	42,695	59,881	8,032	13,820	124,428

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2009-2010
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	24,902	6,126	0	10,342	41,370
User taxes and fees	9,228	1,781	1,343	2,849	15,201
Sales and use tax	8,529	776	0	2,849	12,154
Cigarette and tobacco taxes	438	616	0	0	1,054
Motor fuel tax	0	114	428	0	542
Motor vehicle fees	0	275	696	0	971
Alcoholic beverages taxes	209	0	0	0	209
Highway Use tax	0	0	167	0	167
Alcoholic beverage control license fees	52	0	0	0	52
Auto rental tax	0	0	52	0	52
Business taxes	6,885	1,521	691	0	9,097
Corporation franchise tax	4,209	552	0	0	4,761
Corporation and utilities tax	628	181	17	0	826
Insurance taxes	1,216	115	0	0	1,331
Bank tax	832	128	0	0	960
Petroleum business tax	0	545	674	0	1,219
Other taxes	1,317	0	212	738	2,267
Estate tax	1,296	0	0	0	1,296
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	738	950
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	42,332	9,428	2,246	13,929	67,935
Miscellaneous receipts	2,456	13,881	3,580	683	20,600
Federal grants	59	38,690	2,022	0	40,771
Total	44,847	61,999	7,848	14,612	129,306

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2010-2011
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	26,313	6,422	0	10,912	43,647
User taxes and fees	9,554	1,815	1,375	2,959	15,703
Sales and use tax	8,860	806	0	2,959	12,625
Cigarette and tobacco taxes	432	606	0	0	1,038
Motor fuel tax	0	115	429	0	544
Motor vehicle fees	0	288	720	0	1,008
Alcoholic beverages taxes	214	0	0	0	214
Highway Use tax	0	0	171	0	171
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	55	0	55
Business taxes	7,160	1,558	693	0	9,411
Corporation franchise tax	4,441	582	0	0	5,023
Corporation and utilities tax	632	182	17	0	831
Insurance taxes	1,255	119	0	0	1,374
Bank tax	832	128	0	0	960
Petroleum business tax	0	547	676	0	1,223
Other taxes	1,400	0	212	738	2,350
Estate tax	1,379	0	0	0	1,379
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	212	738	950
Pari-mutuel taxes	20	0	0	0	20
Other taxes	1	0	0	0	1
Total Taxes	44,427	9,795	2,280	14,609	71,111
Miscellaneous receipts	2,459	14,490	3,301	683	20,933
Federal grants	59	40,489	2,051	0	42,599
Total	46,945	64,774	7,632	15,292	134,643

CASH RECEIPTS
GENERAL FUND
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Actual	2006-2007 Estimated	2007-2008 Recommended	2007-2008 Compared with 2006-2007
Personal income tax	20,700	22,828	22,258	(570)
User taxes and fees	8,639	8,305	8,633	328
Sales and use tax	7,978	7,647	7,934	287
Cigarette and tobacco taxes	404	404	447	43
Motor fuel tax	0	0	0	0
Motor vehicle fees	23	0	0	0
Alcoholic beverages taxes	192	196	200	4
Alcoholic beverage control license fees	42	58	52	(6)
Auto rental tax	0	0	0	0
Business taxes	5,084	6,027	6,333	306
Corporation franchise tax	2,664	3,545	3,768	223
Corporation and utilities tax	591	619	618	(1)
Insurance taxes	987	1,113	1,150	37
Bank tax	842	750	797	47
Petroleum business tax	0	0	0	0
Other taxes	881	1,077	1,060	(17)
Estate tax	854	1,065	1,039	(26)
Gift tax	2	(10)	0	10
Real property gains tax	1	1	0	(1)
Pari-mutuel taxes	23	20	20	0
Other taxes	1	1	1	0
Total Taxes	35,304	38,237	38,284	47
Miscellaneous receipts	2,029	2,665	2,851	186
Licenses, fees, etc.	577	684	845	161
Abandoned property	547	700	634	(66)
Reimbursements	228	171	200	29
Investment income	98	210	150	(60)
Other transactions	579	900	1,022	122
Federal Grants	0	180	59	(121)
Total	37,333	41,082	41,194	112

CASH RECEIPTS
GENERAL FUND
2008-2009 THROUGH 2010-2011
(millions of dollars)

	2008-2009 Recommended	2009-2010 Recommended	2010-2011 Recommended
Personal income tax	23,518	24,902	26,313
User taxes and fees	8,915	9,228	9,554
Sales and use tax	8,220	8,529	8,860
Cigarette and tobacco taxes	443	438	432
Motor fuel tax	0	0	0
Motor vehicle fees	0	0	0
Alcoholic beverages taxes	204	209	214
Alcoholic beverage control license fees	48	52	48
Auto rental tax	0	0	0
Business taxes	6,604	6,885	7,160
Corporation franchise tax	3,969	4,209	4,441
Corporation and utilities tax	623	628	632
Insurance taxes	1,180	1,216	1,255
Bank tax	832	832	832
Petroleum business tax	0	0	0
Other taxes	1,186	1,317	1,400
Estate tax	1,165	1,296	1,379
Gift tax	0	0	0
Real property gains tax	0	0	0
Pari-mutuel taxes	20	20	20
Other taxes	1	1	1
Total Taxes	40,223	42,332	44,427
Miscellaneous receipts	2,413	2,456	2,459
Licenses, fees, etc.	845	845	845
Abandoned property	600	600	600
Reimbursements	170	170	170
Investment income	150	150	150
Other transactions	648	691	694
Federal Grants	59	59	59
Total	42,695	44,847	46,945

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Actual	2006-2007 Estimated	2007-2008 Recommended	2007-2008 Compared with 2006-2007
Personal income tax	3,213	3,996	4,948	952
User taxes and fees	1,491	1,616	1,713	97
Sales and use tax	604	694	722	28
Cigarette and tobacco taxes	571	565	631	66
Motor fuel tax	111	109	112	3
Motor vehicle fees	205	248	248	0
Business taxes	1,353	1,467	1,444	(23)
Corporation franchise tax	388	525	497	(28)
Corporation and utilities tax	223	181	181	0
Insurance taxes	96	113	109	(4)
Bank tax	132	155	129	(26)
Petroleum business tax	514	493	528	35
Total Taxes	6,057	7,079	8,105	1,026
Miscellaneous receipts	13,767	12,644	12,937	293
HCRA	5,608	3,911	3,651	(260)
State university income	2,439	2,631	2,804	173
Lottery	2,364	2,484	2,933	449
Medicaid	447	759	697	(62)
Industry assessments	497	520	535	15
All other	2,412	2,339	2,317	(22)
Federal grants	33,363	34,244	35,256	1,012
Total	53,187	53,967	56,298	2,331

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2008-2009 THROUGH 2010-2011
(millions of dollars)

	2008-2009 Recommended	2009-2010 Recommended	2010-2011 Recommended
Personal income tax	5,601	6,126	6,422
User taxes and fees	1,738	1,781	1,815
Sales and use tax	747	776	806
Cigarette and tobacco taxes	625	616	606
Motor fuel tax	113	114	115
Motor vehicle fees	253	275	288
Business taxes	1,486	1,521	1,558
Corporation franchise tax	522	552	582
Corporation and utilities tax	181	181	182
Insurance taxes	113	115	119
Bank tax	128	128	128
Petroleum business tax	542	545	547
Total Taxes	8,825	9,428	9,795
Miscellaneous receipts	14,063	13,881	14,490
HCRA	4,154	3,603	3,652
State university income	2,860	2,883	2,926
Lottery	3,452	3,835	4,292
Medicaid	596	603	609
Industry assessments	542	546	552
All other	2,459	2,411	2,459
Federal grants	36,993	38,690	40,489
Total	59,881	61,999	64,774

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Actual	2006-2007 Estimated	2007-2008 Recommended	2007-2008 Compared with 2006-2007
User taxes and fees	1,179	1,265	1,281	16
Motor fuel tax	420	410	424	14
Motor vehicle fees	557	652	652	0
Highway use tax	160	157	157	0
Auto rental tax	42	46	48	2
Business taxes	650	629	673	44
Corporation and utilities tax	18	17	17	0
Petroleum business tax	632	612	656	44
Other taxes	112	147	212	65
Real estate transfer tax	112	147	212	65
Total Taxes	1,941	2,041	2,166	125
Miscellaneous receipts	1,714	2,565	3,585	1,020
Authority bond proceeds	2,570	4,109	6,015	1,906
State park fees	30	32	26	(6)
Environmental revenues	33	54	76	22
All other	98	82	171	89
Accounting adjustment	(1,017)	(1,712)	(2,703)	(991)
Federal grants	1,766	1,760	1,996	236
Total	5,421	6,366	7,747	1,381

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2008-2009 THROUGH 2010-2011
(millions of dollars)

	2008-2009 Recommended	2009-2010 Recommended	2010-2011 Recommended
User taxes and fees	1,300	1,343	1,375
Motor fuel tax	426	428	429
Motor vehicle fees	660	696	720
Highway use tax	164	167	171
Auto rental tax	50	52	55
Business taxes	688	691	693
Corporation and utilities tax	17	17	17
Petroleum business tax	671	674	676
Other taxes	212	212	212
Real estate transfer tax	212	212	212
Total Taxes	2,200	2,246	2,280
Miscellaneous receipts	3,800	3,580	3,301
Authority bond proceeds	5,395	4,785	4,144
State park fees	26	26	26
Environmental revenues	152	132	132
All other	133	130	131
Accounting adjustment	(1,906)	(1,493)	(1,132)
Federal grants	2,032	2,022	2,051
Total	8,032	7,848	7,632

CASH RECEIPTS
DEBT SERVICE FUNDS
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Actual	2006-2007 Estimated	2007-2008 Recommended	2007-2008 Compared with 2006-2007
Personal income tax	6,900	7,610	9,068	1,458
User taxes and fees	2,615	2,539	2,650	111
Sales and use tax	2,615	2,539	2,650	111
Motor fuel tax	0	0	0	0
Other taxes	826	803	688	(115)
Real estate transfer tax	826	803	688	(115)
Total Taxes	10,341	10,952	12,406	1,454
Miscellaneous receipts	745	664	671	7
Mental hygiene patient receipts	268	228	228	0
SUNY dormitory fees	344	317	326	9
Health patient receipts	114	98	98	0
All other	19	21	19	(2)
Total	11,086	11,616	13,077	1,461

CASH RECEIPTS
DEBT SERVICE FUNDS
2008-2009 THROUGH 2010-2011
(millions of dollars)

	2008-2009 Recommended	2009-2010 Recommended	2010-2011 Recommended
Personal income tax	9,706	10,342	10,912
User taxes and fees	2,746	2,849	2,959
Sales and use tax	2,746	2,849	2,959
Motor fuel tax	0	0	0
Other taxes	688	738	738
Real estate transfer tax	688	738	738
Total Taxes	13,140	13,929	14,609
Miscellaneous receipts	680	683	683
Mental hygiene patient receipts	228	228	228
SUNY dormitory fees	335	338	341
Health patient receipts	98	98	98
All other	19	19	16
Total	13,820	14,612	15,292

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2005-2006 THROUGH 2007-2008
(millions of dollars)

	2005-2006 Actual	2006-2007 Estimated	2007-2008 Recommended
Withholdings	24,761	26,710	28,376
Estimated Payments	9,158	10,352	11,147
Final Payments	1,849	2,078	2,156
Delinquencies	776	824	909
Gross Collections	36,544	39,964	42,588
State/City Offset	(466)	(533)	(509)
Refunds	(5,265)	(4,997)	(5,805)
Reported Tax Collections	30,813	34,434	36,274
STAR	(3,213)	(3,996)	(4,948)
RBTF	(6,900)	(7,610)	(9,068)
General Fund	20,700	22,828	22,258

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2008-2009 THROUGH 2010-2011
(millions of dollars)

	2008-2009 Recommended	2009-2010 Recommended	2010-2011 Recommended
Withholdings	30,251	32,068	33,920
Estimated Payments	12,097	13,057	13,827
Final Payments	2,256	2,404	2,561
Delinquencies	947	985	1,027
Gross Collections	45,551	48,514	51,335
State/City Offset	(466)	(533)	(509)
Refunds	(6,260)	(6,612)	(7,180)
Reported Tax Collections	38,825	41,369	43,646
STAR	(5,601)	(6,125)	(6,421)
RBTF	(9,706)	(10,342)	(10,912)
General Fund	23,518	24,902	26,313

CASH FLOW

CASH FLOW

The following tables report monthly cash flow for All Funds tax receipts. Actual results are provided for 2005-06 and the first nine months of the current State fiscal year, and estimates are reported for the remainder of 2006-07 and all of 2007-08 and 2008-09. The monthly estimates for 2006-07, 2007-08, and 2008-09 are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. This section contains a new sub-heading that details cash flow results through December and compares them with Mid-Year estimates. This section also contains charts showing monthly General, Special Revenue, Capital Projects and Debt Service Funds cash flow for total taxes and major tax categories and General Fund miscellaneous receipts and Federal grants.

PERSONAL INCOME TAX

The personal income tax cash flow through December has followed a fairly typical pattern in 2006-07, with prepayments in withholding and estimated tax in line with Tax Law requirements. The settlement for tax year 2005 returns grew more slowly than in the prior two years, indicating that taxpayers more accurately prepaid additional liability resulting from the temporary surcharge. In addition, the increase in the amount of tax year 2005 refunds paid between January and March of SFY 2005-06 (from $960 million to $1,512 million) reduced refunds paid in April of SFY 2006-07 relative to previous years. Finally, the expiration of the temporary surcharge on January 1, 2006, has had no appreciable impact on cash flow patterns to date. It appears that growth in 2006 prepayments has slowed gradually through the year. For a second consecutive year, December prepayments were below the historical share, with January amounts increasing.

Cash flow for 2007-08 gross collections is expected to exhibit a normal cash flow pattern with the usually strong settlement expected in April mitigated somewhat by the elimination of the tax surcharge in 2006. However, monthly deposits to the General Fund and the Revenue Bond Tax Fund (RBTF), particularly in October, November and December, would be affected by legislation submitted with this Budget that would provide that deposits to the RBTF be calculated before the deposit of income tax receipts to the STAR Fund. Although this would decrease General Fund personal income tax receipts and increase RBTF deposits, amounts in excess of debt service requirements are transferred back to the General Fund. Budget initiatives would have only a limited cash flow impact in 2007-08.

USER TAXES AND FEES

The cash flow pattern in user taxes and fees for 2006-07 was impacted by the re-introduction of the clothing exemption for items under $110 on April 1, 2006, and the introduction of the cap on sales tax on gasoline purchases. The months at the conclusion of calendar quarters are larger reflecting the impact of quarterly taxpayers. The 2007-08 cash flow for sales tax is expected to return to a pattern more consistent with historical averages. Historically, the fourth quarter share has been slightly smaller than the other quarters.

BUSINESS TAXES

General Fund cash flow for business taxes typically follows a pattern of large monthly collections in June, September, December and March. In 2006-07, this pattern was affected by large audit and compliance collections in the corporate franchise tax in October and in the bank tax in April. However, cash flow for 2007-08 is expected to return to a more normal historical pattern.

OTHER TAXES

General Fund cash flow for other taxes is dominated by the estate tax which comprises approximately 97 percent of the total. Unlike most taxes that have cash flow patterns determined by statute and possible seasonal influences, the estate tax follows no regular pattern during the year. Prior year cash flow gives little guidance to future cash flow patterns. A minor portion of the tax category comes from pari-mutuel taxes on horse racing which display some seasonality but are such a minor portion of the category that it has little impact on overall cash flow. Monthly cash flow for the estate tax for 2007-08 is assumed to be uniform throughout the fiscal year. This methodology is employed in years when there are no statutory changes.

GENERAL FUND 2005-06 MONTHLY CASHFLOW ACTUALS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	3,347	553	2,213	1,254	1,537	2,105	719	522	1,504	4,216	1,641	1,089	20,700
Gross collections	6,189	1,824	3,073	1,783	2,132	3,144	1,969	1,966	3,347	5,630	2,995	2,492	36,544
Refunds	(1,726)	(1,087)	(122)	(111)	(82)	(138)	(90)	(351)	(356)	(9)	(807)	(851)	(5,730)
STAR Fund deposit	0	0	0	0	0	(199)	(920)	(919)	(986)	0	0	(189)	(3,213)
DRRF deposit/RBTF	(1,116)	(184)	(738)	(418)	(513)	(702)	(240)	(174)	(501)	(1,405)	(547)	(363)	(6,901)
User taxes and fees	662	667	894	680	628	898	626	629	874	726	561	794	8,639
Sales and use taxes	605	615	838	617	576	837	575	577	799	669	520	750	7,978
Cigarette and tobacco taxes	36	32	36	39	36	39	33	33	35	32	26	27	404
Motor vehicle fees	0	0	0	0	0	0	0	0	23	0	0	0	23
Alcoholic beverage taxes	17	16	15	21	12	18	15	16	15	22	11	14	192
ABC license fees	4	4	5	3	4	4	3	3	2	3	4	3	42
Business taxes	217	177	891	90	83	919	91	53	954	21	127	1,461	5,084
Corporation franchise tax	182	135	413	82	52	461	76	46	390	38	114	675	2,664
Corp. & utilities taxes	5	4	101	10	6	130	2	0	150	(1)	1	183	591
Insurance taxes	4	1	205	(2)	9	215	0	7	219	(4)	5	328	987
Bank tax	26	37	172	0	16	113	13	0	195	(12)	7	275	842
Other taxes	49	64	131	118	63	68	71	77	67	56	72	45	881
Estate & gift tax	48	62	128	116	59	64	69	75	66	55	71	43	856
Real property gains tax	0	0	0	0	0	1	0	0	0	0	0	0	1
Pari-mutuel taxes	1	2	3	2	3	3	2	2	1	1	1	2	23
Other taxes	0	0	0	0	1	0	0	0	0	0	0	0	1
TOTAL	4,275	1,461	4,129	2,142	2,311	3,990	1,507	1,281	3,399	5,019	2,401	3,389	35,304
Miscellaneous Receipts	161	81	176	95	109	108	179	224	202	99	49	546	2,029
Licenses, Fees, etc.	47	57	55	30	38	38	68	53	43	38	33	50	550
Abandoned Property	25	0	15	10	35	35	8	142	62	0	0	230	562
Reimbursements	4	5	27	4	24	24	12	4	21	8	8	97	238
Investment Income	29	(3)	4	12	(23)	(23)	43	2	6	33	(4)	3	79
Other Transactions	56	22	75	39	35	34	48	23	70	20	12	166	600
Federal Grants	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL RECEIPTS	4,436	1,542	4,305	2,237	2,420	4,098	1,686	1,505	3,601	5,118	2,450	3,935	37,333
TOTAL TAXES (Before Transfers & STAR)	5,695	1,905	5,168	2,852	3,136	5,253	2,942	2,637	5,243	6,715	3,167	4,258	48,971

SPECIAL REVENUE FUNDS 2005-06 MONTHLY CASHFLOW ACTUALS (millions of dollars)													
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	199	920	919	986	0	0	189	3,213
User taxes and fees	130	103	125	128	121	146	116	121	147	127	144	83	1,491
Sales and use taxes	58	34	54	51	47	72	48	49	72	58	44	17	604
Cigarette and tobacco taxes	51	46	51	56	49	55	46	46	51	45	36	39	571
Motor fuel tax	8	10	8	11	9	11	10	8	9	8	10	9	111
Motor vehicle fees	13	13	12	10	16	8	12	18	15	16	54	18	205
Business taxes	62	83	190	60	57	192	45	52	200	41	59	312	1,353
Corporation franchise tax	17	40	56	12	8	63	4	9	60	8	11	100	388
Corp. & utilities taxes	1	(1)	32	(2)	1	35	(1)	3	44	(1)	1	111	223
Insurance taxes	(1)	0	24	0	2	23	(1)	2	20	(4)	0	31	96
Bank tax	3	6	37	2	0	23	0	(1)	34	(4)	2	30	132
Petroleum business taxes	42	38	41	48	46	48	43	39	42	42	45	40	514
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	192	186	315	188	178	537	1,081	1,092	1,333	168	203	584	6,057

CAPITAL PROJECTS FUND 2005-06 MONTHLY CASHFLOW ACTUALS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	93	93	98	89	94	102	87	83	104	89	148	99	1,179
Motor fuel tax	33	37	31	40	36	40	36	32	33	32	37	33	420
Motor vehicle fees	44	43	45	38	43	37	38	34	46	42	99	48	557
Highway use tax	13	13	14	11	15	12	13	17	13	15	12	12	160
Auto rental tax	3	0	8	0	0	13	0	0	12	0	0	6	42
Business taxes	52	48	54	57	57	62	53	49	55	50	55	58	650
Corp. & utilities taxes	1	0	3	(1)	0	3	0	1	4	(1)	0	8	18
Petroleum business taxes	51	48	51	58	57	59	53	48	51	51	55	50	632
Other taxes	0	0	11	11	11	11	11	11	11	11	12	12	112
Real estate transfer tax	0	0	11	11	11	11	11	11	11	11	12	12	112
TOTAL	144	140	163	158	162	176	152	143	171	150	216	167	1,941

DEBT SERVICE FUNDS 2005-06 MONTHLY CASHFLOW ACTUALS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,116	184	738	418	513	701	240	174	501	1,405	547	363	6,900
User taxes and fees	186	190	265	205	192	276	191	192	265	223	174	256	2,615
Sales and use taxes	186	190	265	205	192	276	191	192	265	223	174	256	2,615
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	117	70	24	79	109	75	73	59	80	57	34	49	826
Real estate transfer tax	117	70	24	79	109	75	73	59	80	57	34	49	826
TOTAL	1,419	444	1,027	702	814	1,052	504	425	846	1,685	755	668	10,341

GENERAL FUND 2006-07 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	4,170	689	2,393	1,340	1,537	1,943	835	198	1,502	5,067	1,460	1,694	22,828
Gross collections	6,817	2,033	3,420	1,882	2,133	3,483	2,247	2,088	3,287	6,777	3,044	2,751	39,962
Refunds	(1,257)	(1,114)	(229)	(95)	(84)	(109)	(115)	(667)	(203)	(21)	(1,097)	(537)	(5,528)
STAR Fund deposit	0	0	0	0	0	(783)	(1,019)	(1,157)	(1,081)	0	0	44	(3,996)
DRRF deposit/RBTF	(1,390)	(230)	(798)	(447)	(512)	(648)	(278)	(66)	(501)	(1,689)	(487)	(564)	(7,610)
User taxes and fees	600	597	843	653	607	852	617	608	888	720	550	770	8,305
Sales and use taxes	543	546	783	577	555	794	563	553	833	665	506	729	7,647
Cigarette and tobacco taxes	36	32	39	38	36	36	35	35	34	31	27	25	404
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Alcoholic beverage taxes	17	15	17	22	13	18	15	16	18	20	13	12	196
ABC license fees	4	4	4	16	3	4	4	4	3	4	4	4	58
Business taxes	325	83	1,002	120	76	1,091	576	144	1,102	68	57	1,383	6,027
Corporation franchise tax	176	57	494	106	63	543	567	111	550	50	53	775	3,545
Corp. & utilities taxes	3	3	125	4	(1)	136	7	1	175	2	2	162	619
Insurance taxes	9	18	219	2	6	260	(3)	18	225	10	3	346	1,113
Bank tax	137	5	164	8	8	152	5	14	152	6	(1)	100	750
Other taxes	104	80	112	119	70	61	107	82	179	55	54	54	1,077
Estate & gift tax	102	78	109	117	67	57	106	81	178	54	53	53	1,055
Real property gains tax	0	0	1	0	0	0	0	0	0	0	0	0	1
Pari-mutuel taxes	2	2	2	2	3	3	1	1	1	1	1	1	20
Other taxes	0	0	0	0	0	1	0	0	0	0	0	0	1
TOTAL	5,199	1,449	4,350	2,232	2,290	3,947	2,135	1,032	3,671	5,910	2,121	3,901	38,237
Miscellaneous Receipts	167	121	279	117	110	187	176	234	143	126	111	894	2,665
Licenses, Fees, etc.	42	63	52	38	71	72	102	26	39	50	52	78	685
Abandoned Property	38	0	30	20	5	45	13	149	20	29	31	319	699
Reimbursements	3	8	22	5	15	25	9	11	27	8	9	29	171
Investment Income	52	(6)	12	24	(3)	14	37	21	23	25	5	8	212
Other Transactions	32	56	163	30	22	31	15	27	34	14	14	460	898
Federal Grants	0	0	111	0	(1)	0	15	0	10	1	1	43	180
TOTAL RECEIPTS	5,366	1,570	4,740	2,349	2,399	4,134	2,326	1,266	3,824	6,037	2,233	4,838	41,082
TOTAL TAXES (Before Transfers & STAR)	6,867	1,943	5,489	2,946	3,072	5,735	3,701	2,494	5,645	7,855	2,839	4,747	53,333

SPECIAL REVENUE FUNDS 2006-07 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	783	1,019	1,157	1,081	0	0	(44)	3,996
User taxes and fees	179	128	165	123	142	136	137	123	155	132	115	81	1,616
Sales and use taxes	103	49	71	54	51	65	55	54	69	59	46	18	694
Cigarette and tobacco taxes	50	46	56	53	50	49	51	48	48	44	37	33	565
Motor fuel tax	8	10	10	8	11	10	9	8	9	8	10	8	109
Motor vehicle fees	18	23	28	8	30	12	22	13	29	21	22	22	248
Business taxes	89	54	199	60	61	214	138	72	195	65	42	278	1,467
Corporation franchise tax	24	10	66	14	15	79	94	17	70	6	1	129	525
Corp. & utilities taxes	1	1	36	0	1	37	2	2	39	7	1	54	181
Insurance taxes	0	3	26	1	(1)	31	1	3	21	1	(1)	28	113
Bank tax	29	2	30	2	4	24	1	10	30	1	(1)	23	155
Petroleum business taxes	35	38	41	43	42	43	40	40	35	50	42	44	493
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	268	182	364	183	203	1,133	1,294	1,352	1,431	197	157	315	7,079

CAPITAL PROJECTS FUND 2006-07 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	90	101	125	76	118	100	97	80	122	113	118	125	1,265
Motor fuel tax	29	36	37	30	40	38	35	31	35	30	36	33	410
Motor vehicle fees	47	52	64	31	65	35	50	36	62	69	69	72	652
Highway use tax	12	13	13	15	13	13	12	13	13	14	13	13	157
Auto rental tax	2	0	11	0	0	14	0	0	12	0	0	7	46
Business taxes	44	49	53	53	52	57	50	50	46	64	52	59	629
Corp. & utilities taxes	0	1	3	0	0	3	0	0	3	2	0	5	17
Petroleum business taxes	44	48	50	53	52	54	50	50	43	62	52	54	612
Other taxes	0	0	14	14	14	14	14	14	14	16	16	17	147
Real estate transfer tax	0	0	14	14	14	14	14	14	14	16	16	17	147
TOTAL	134	150	192	143	184	171	161	144	182	193	186	201	2,041

DEBT SERVICE FUNDS 2006-07 MONTHLY CASHFLOW ACTUAL AND ESTIMATES (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,390	230	798	447	512	648	278	66	501	1,689	487	564	7,610
User taxes and fees	176	181	261	190	183	269	187	184	278	219	168	243	2,539
Sales and use taxes	176	181	261	190	183	269	187	184	278	219	168	243	2,539
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	102	82	67	63	73	74	68	41	100	43	45	45	803
Real estate transfer tax	102	82	67	63	73	74	68	41	100	43	45	45	803
TOTAL	1,668	493	1,126	700	768	991	533	291	879	1,951	700	852	10,952

GENERAL FUND 2007-08 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	3,879	638	2,423	1,486	1,616	2,333	635	59	379	5,265	1,724	1,821	22,258
Gross collections	7,135	2,157	3,640	2,116	2,296	3,725	2,399	2,196	3,531	7,033	3,390	2,970	42,588
Refunds	(1,963)	(1,306)	(100)	(134)	(142)	(121)	(121)	(368)	(413)	(13)	(1,092)	(541)	(6,314)
STAR Fund deposit	0	0	(232)	0	0	(370)	(1,074)	(1,312)	(1,960)	0	0	0	(4,948)
DRRF deposit/RBTF	(1,293)	(213)	(885)	(496)	(538)	(901)	(569)	(457)	(779)	(1,755)	(574)	(608)	(9,068)
User taxes and fees	621	621	874	663	630	880	647	638	922	756	581	800	8,633
Sales and use taxes	558	564	814	595	571	819	588	577	866	696	530	756	7,934
Cigarette and tobacco taxes	41	38	38	42	41	38	40	40	34	36	33	26	447
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Alcoholic beverage taxes	18	15	17	22	14	18	15	16	18	20	14	13	200
ABC license fees	4	4	5	4	4	5	4	5	4	4	4	5	52
Business taxes	236	23	1,170	165	133	1,210	166	64	1,183	156	134	1,693	6,333
Corporation franchise tax	211	19	586	141	117	633	145	61	611	143	126	975	3,768
Corp. & utilities taxes	4	2	123	6	2	145	(6)	2	164	2	2	172	618
Insurance taxes	(1)	1	255	4	5	257	9	(2)	242	0	(2)	382	1,150
Bank tax	22	1	206	14	9	175	18	3	166	11	8	164	797
Other taxes	88	88	88	88	89	91	88	88	88	88	88	88	1,060
Estate & gift tax	86	86	86	86	86	87	87	87	87	87	87	87	1,039
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Pari-mutuel taxes	2	2	2	2	3	3	1	1	1	1	1	1	20
Other taxes	0	0	0	0	0	1	0	0	0	0	0	0	1
TOTAL	4,824	1,370	4,555	2,402	2,468	4,514	1,536	849	2,572	6,265	2,527	4,402	38,284
Miscellaneous Receipts	117	132	265	201	120	190	123	238	189	116	132	1,028	2,851
Licenses, Fees, etc.	66	62	60	141	58	71	59	56	61	56	66	90	846
Abandoned Property	12	20	35	15	16	48	23	140	55	23	27	221	635
Reimbursements	21	14	25	18	18	21	8	8	22	4	5	35	199
Investment Income	13	12	12	12	13	12	12	13	12	12	13	13	149
Other Transactions	5	24	133	15	15	38	21	21	39	21	21	669	1,022
Federal Grants	1	1	13	1	1	13	1	1	13	1	1	13	59
TOTAL RECEIPTS	4,942	1,503	4,833	2,604	2,589	4,717	1,660	1,088	2,774	6,382	2,660	5,443	41,194
TOTAL TAXES (Before Transfers & STAR)	6,379	1,841	6,017	3,169	3,274	6,138	3,445	2,727	5,847	8,113	3,564	5,337	55,851

SPECIAL REVENUE FUNDS 2007-08 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	232	0	0	370	1,074	1,312	1,960	0	0	0	4,948
User taxes and fees	190	138	166	132	151	140	147	135	159	143	126	86	1,713
Sales and use taxes	108	50	74	56	52	66	59	57	72	62	48	18	722
Cigarette and tobacco taxes	56	55	54	59	58	52	57	56	49	51	47	37	631
Motor fuel tax	8	10	10	9	11	10	9	9	9	9	9	9	112
Motor vehicle fees	18	23	28	8	30	12	22	13	29	21	22	22	248
Business taxes	61	45	226	62	59	236	56	48	226	70	54	301	1,444
Corporation franchise tax	19	7	86	12	14	91	13	7	92	12	9	135	497
Corp. & utilities taxes	2	0	30	2	1	40	0	0	38	8	1	59	181
Insurance taxes	0	0	26	0	1	26	1	0	25	0	0	30	109
Bank tax	2	(3)	40	2	(1)	33	(1)	(2)	34	(3)	(1)	29	129
Petroleum business taxes	38	41	44	46	44	46	43	43	37	53	45	48	528
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	251	183	624	194	210	746	1,277	1,495	2,345	213	180	387	8,105

CAPITAL PROJECTS FUND 2007-08 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	94	103	127	77	119	101	99	81	124	115	121	120	1,281
Motor fuel tax	30	38	38	31	41	39	36	32	36	31	38	34	424
Motor vehicle fees	48	52	64	31	65	34	50	36	62	70	70	70	652
Highway use tax	13	13	13	15	13	13	13	13	13	14	13	11	157
Auto rental tax	3	0	12	0	0	15	0	0	13	0	0	5	48
Business taxes	47	51	58	57	56	61	54	53	50	68	56	62	673
Corp. & utilities taxes	0	0	3	0	0	3	0	0	3	2	0	6	17
Petroleum business taxes	47	51	55	57	56	58	54	53	47	66	56	56	656
Other taxes	0	0	21	21	21	21	21	21	21	21	22	22	212
Real estate transfer tax	0	0	21	21	21	21	21	21	21	21	22	22	212
TOTAL	141	154	206	155	196	183	174	155	195	204	199	204	2,166

DEBT SERVICE FUNDS 2007-08 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,293	213	885	496	538	901	569	457	779	1,755	574	608	9,068
User taxes and fees	186	188	273	198	190	274	196	192	290	232	177	254	2,650
Sales and use taxes	186	188	273	198	190	274	196	192	290	232	177	254	2,650
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	75	71	50	50	55	60	49	60	60	50	54	54	688
Real estate transfer tax	75	71	50	50	55	60	49	60	60	50	54	54	688
TOTAL	1,554	472	1,208	744	783	1,235	814	709	1,129	2,037	805	916	12,406

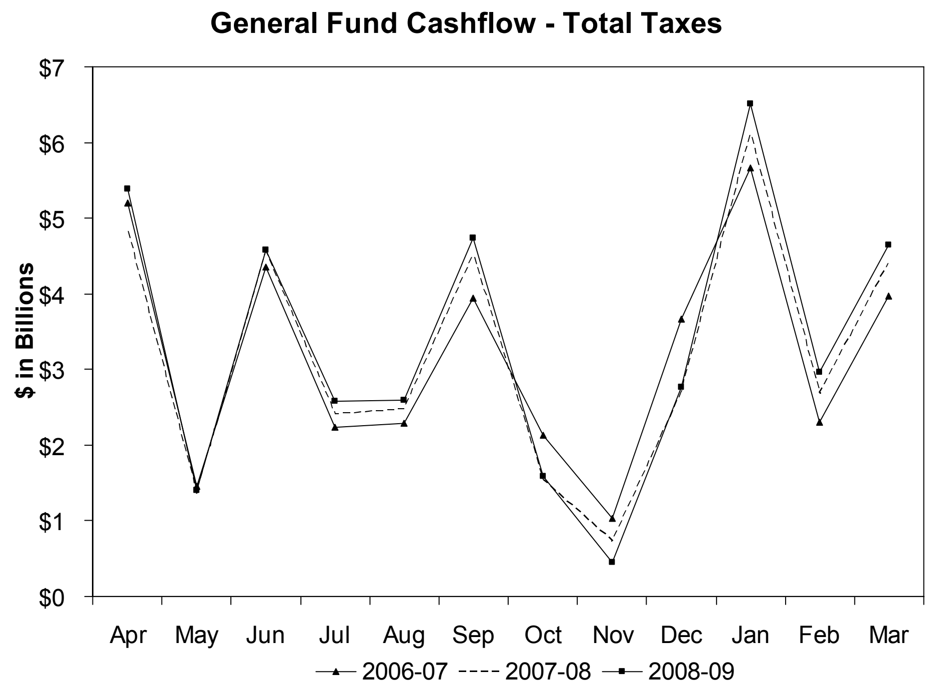
GENERAL FUND 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	4,394	646	2,359	1,624	1,712	2,476	649	(374)	480	5,465	2,129	1,958	23,518
Gross collections	7,777	2,271	3,905	2,277	2,367	3,903	2,592	2,303	3,757	7,300	3,935	3,165	45,552
Refunds	(1,918)	(1,410)	(229)	(111)	(85)	(93)	(128)	(849)	(241)	(13)	(1,096)	(554)	(6,727)
STAR Fund deposit	0	0	(398)	0	0	(382)	(1,199)	(1,465)	(2,157)	0	0	0	(5,601)
DRRF deposit/RBTF	(1,465)	(215)	(919)	(542)	(570)	(952)	(616)	(363)	(879)	(1,822)	(710)	(653)	(9,706)
User taxes and fees	643	641	904	681	647	910	667	658	957	783	598	826	8,915
Sales and use taxes	580	585	844	615	589	846	609	599	899	722	549	783	8,220
Cigarette and tobacco taxes	41	37	39	40	40	42	38	38	35	36	31	26	443
Motor vehicle fees	0	0	0	0	0	0	0	0	0	0	0	0	0
Alcoholic beverage taxes	18	15	17	22	14	18	16	17	19	21	14	13	204
ABC license fees	4	4	4	4	4	4	4	4	4	4	4	4	48
Business taxes	251	24	1,217	174	140	1,255	176	67	1,227	165	142	1,766	6,604
Corporation franchise tax	224	21	616	149	124	664	154	65	642	151	134	1,025	3,969
Corp. & utilities taxes	4	2	124	6	2	146	(6)	2	167	2	2	172	623
Insurance taxes	(1)	1	262	4	5	264	9	(2)	249	0	(2)	391	1,180
Bank tax	24	0	215	15	9	181	19	2	169	12	8	178	832
Other taxes	99	99	99	99	100	101	98	98	98	98	98	99	1,186
Estate & gift tax	97	97	97	97	97	97	97	97	97	97	97	98	1,165
Real property gains tax	0	0	0	0	0	0	0	0	0	0	0	0	0
Pari-mutuel taxes	2	2	2	2	3	3	1	1	1	1	1	1	20
Other taxes	0	0	0	0	0	1	0	0	0	0	0	0	1
TOTAL	5,387	1,410	4,579	2,578	2,599	4,742	1,590	449	2,762	6,511	2,967	4,649	40,223
Miscellaneous Receipts	116	123	165	127	120	180	123	254	179	113	126	787	2,413
Licenses, Fees, etc.	71	67	68	72	65	78	65	62	68	62	71	95	844
Abandoned Property	9	10	29	13	14	39	27	160	45	22	25	207	600
Reimbursements	19	11	22	16	15	18	5	6	20	2	3	33	170
Investment Income	13	12	12	12	12	12	13	13	12	13	13	13	150
Other Transactions	4	23	34	14	14	33	13	13	34	14	14	439	649
Federal Grants	1	1	13	1	1	13	1	1	13	1	1	12	59
TOTAL RECEIPTS	5,504	1,534	4,757	2,706	2,720	4,935	1,714	704	2,954	6,625	3,094	5,448	42,695
TOTAL TAXES (Before Transfers & STAR)	7,121	1,889	6,250	3,397	3,442	6,440	3,679	2,558	6,181	8,644	3,935	5,639	59,175

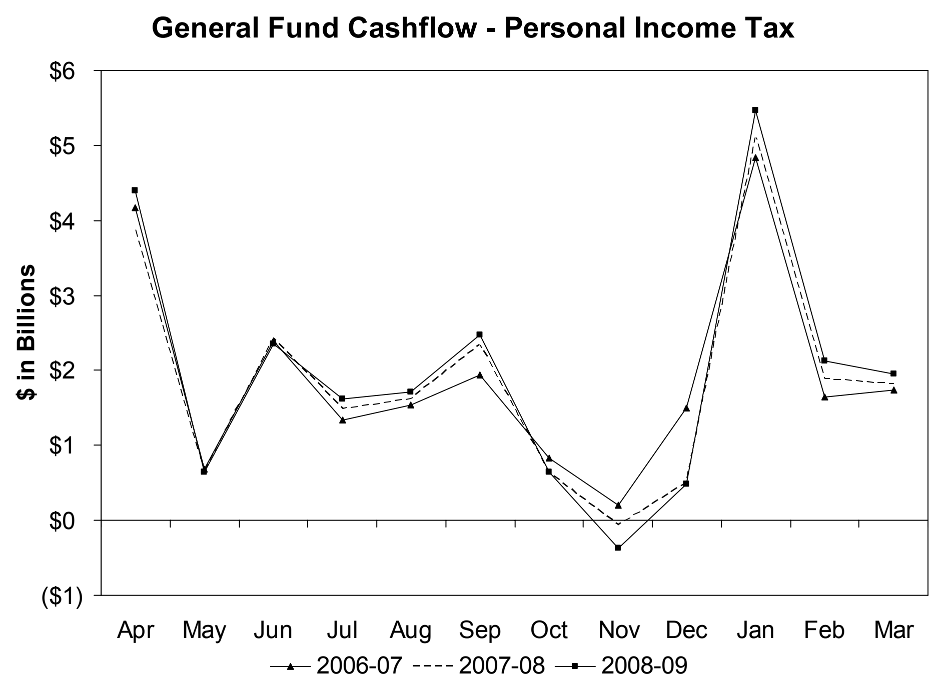
SPECIAL REVENUE FUNDS 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	398	0	0	381	1,199	1,465	2,158	0	0	0	5,601
User taxes and fees	196	137	170	132	152	149	147	134	165	146	125	85	1,738
Sales and use taxes	112	52	77	59	54	69	60	59	74	64	49	18	747
Cigarette and tobacco taxes	57	52	55	56	56	58	54	53	52	52	44	36	625
Motor fuel tax	8	10	10	9	11	10	10	9	9	8	10	9	113
Motor vehicle fees	19	23	28	8	31	12	23	13	30	22	22	22	253
Business taxes	90	82	163	71	94	178	77	60	162	84	104	321	1,486
Corporation franchise tax	47	43	21	19	47	31	33	18	27	24	58	154	522
Corp. & utilities taxes	3	(1)	30	2	1	40	0	0	38	8	1	59	181
Insurance taxes	0	0	27	0	1	28	1	0	25	0	0	31	113
Bank tax	2	(3)	40	2	(1)	32	(1)	(2)	34	(3)	(1)	29	128
Petroleum business taxes	38	43	45	48	46	47	44	44	38	55	46	48	542
Other taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	286	219	731	203	246	708	1,423	1,659	2,485	230	229	406	8,825

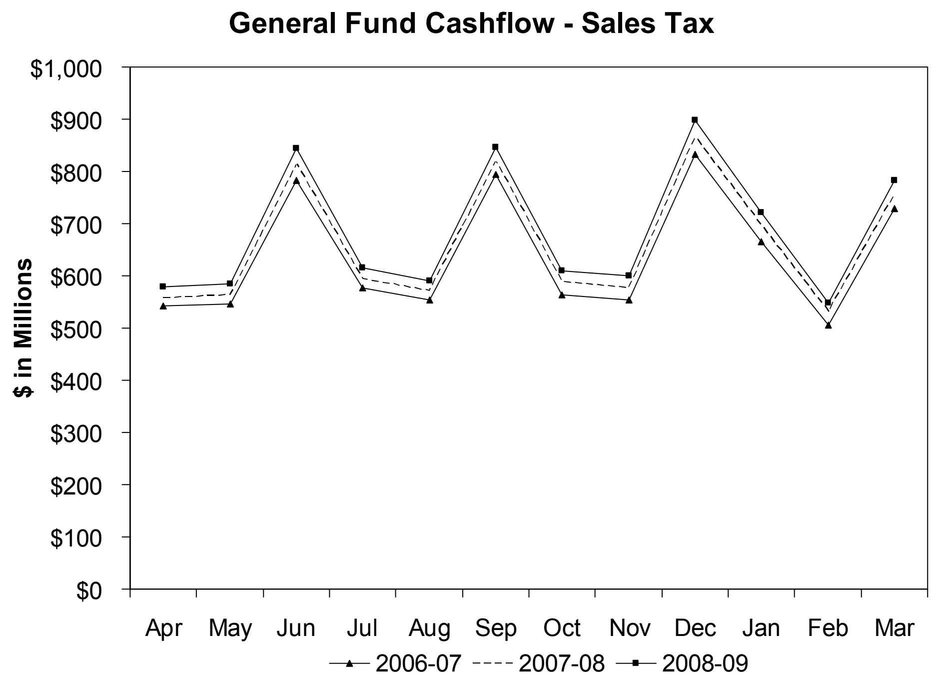
CAPITAL PROJECTS FUND 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	0	0	0	0	0	0	0	0	0	0	0	0	0
User taxes and fees	94	104	129	79	121	104	100	82	124	118	121	124	1,300
Motor fuel tax	30	38	38	32	41	39	36	32	36	32	38	34	426
Motor vehicle fees	48	52	65	32	66	35	50	37	62	71	70	72	660
Highway use tax	13	14	14	15	14	14	14	13	13	15	13	12	164
Auto rental tax	3	0	12	0	0	16	0	0	13	0	0	6	50
Business taxes	48	52	59	58	57	62	55	55	51	70	57	64	688
Corp. & utilities taxes	0	0	3	0	0	3	0	0	3	2	0	6	17
Petroleum business taxes	48	52	56	58	57	59	55	55	48	68	57	58	671
Other taxes	0	0	21	21	21	21	21	21	21	21	22	22	212
Real estate transfer tax	0	0	21	21	21	21	21	21	21	21	22	22	212
TOTAL	142	156	209	158	199	187	176	158	196	209	200	210	2,200

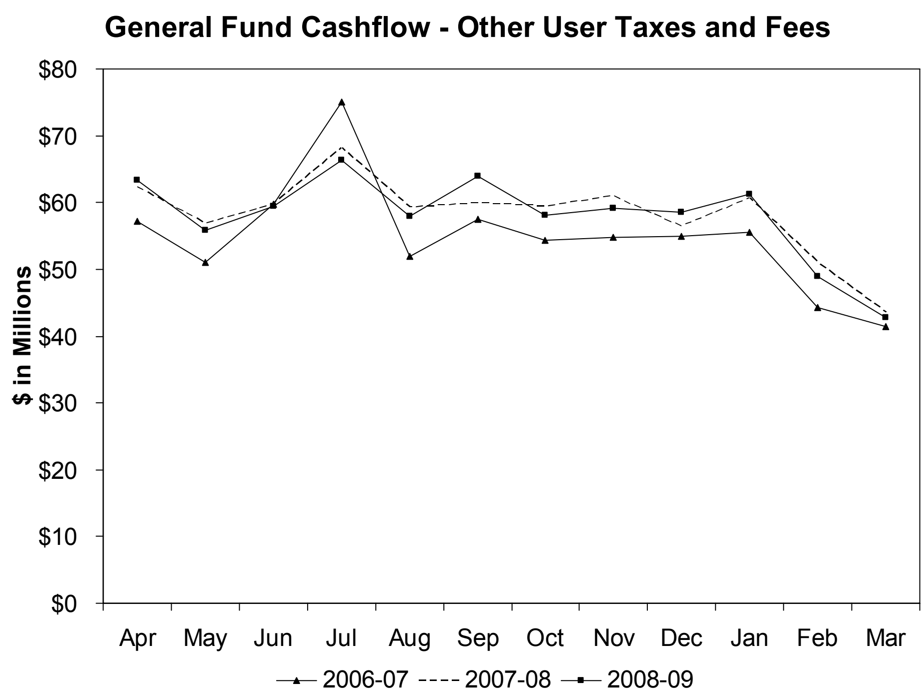
DEBT SERVICE FUNDS 2008-09 MONTHLY CASHFLOW PROJECTIONS (millions of dollars)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	1,465	215	919	542	570	952	616	363	879	1,822	710	653	9,706
User taxes and fees	193	195	283	205	196	283	203	200	301	241	183	263	2,746
Sales and use taxes	193	195	283	205	196	283	203	200	301	241	183	263	2,746
Business taxes	0	0	0	0	0	0	0	0	0	0	0	0	0
Other taxes	75	71	50	50	55	60	49	60	60	50	54	54	688
Real estate transfer tax	75	71	50	50	55	60	49	60	60	50	54	54	688
TOTAL	1,733	481	1,252	797	821	1,295	868	623	1,240	2,113	947	970	13,140

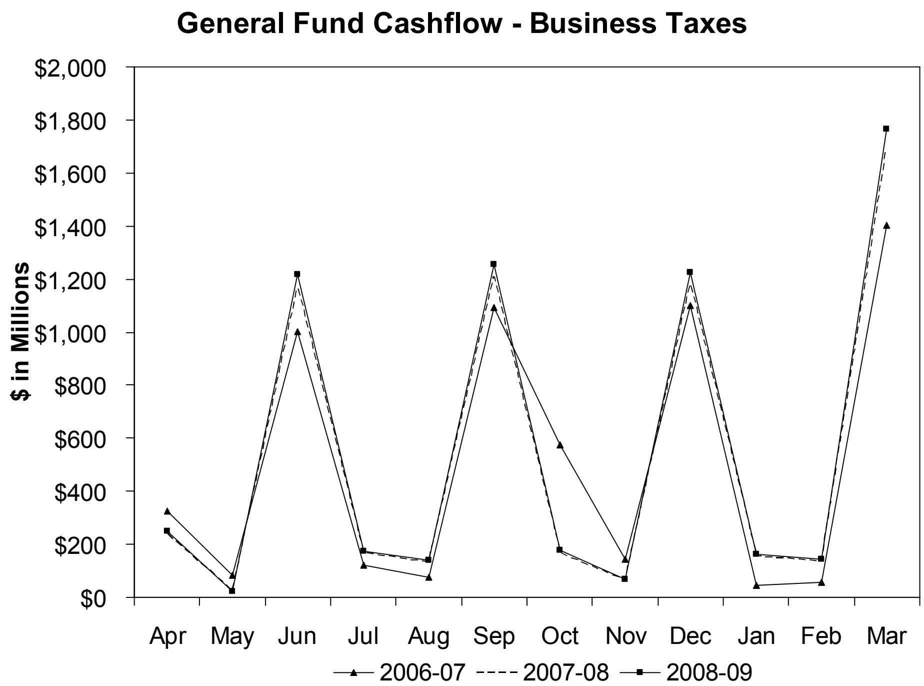
ALL GOVERNMENTAL FUNDS AVERAGE HISTORICAL SHARES: 2001-2002 through 2005-2006 (percent)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Total
Personal income tax	18	2	9	6	6	9	7	6	10	16	8	3	100
Gross collections	16	5	8	6	6	8	6	6	10	14	8	7	100
Refunds	26	23	4	2	2	2	2	6	6	0	10	16	100
STAR Fund deposit	0	0	0	0	0	8	16	20	49	0	0	7	100
DRRF deposit/RBTF	9	2	9	6	26	9	4	3	5	15	8	5	100
User taxes and fees	8	7	10	8	8	10	8	8	10	8	7	9	100
Sales and use taxes	7	7	10	8	7	10	8	7	10	8	6	10	100
Cigarette and tobacco taxes	10	8	9	9	9	9	8	8	8	8	7	7	100
Motor fuel tax	8	9	9	9	9	10	9	8	8	8	7	7	100
Motor vehicle fees	9	9	9	8	8	6	8	8	8	7	10	9	100
Alcoholic beverage taxes	9	8	8	10	8	9	8	8	9	12	5	6	100
ABC license fees	9	8	9	8	9	10	8	7	6	9	10	7	100
Highw ay use tax	9	8	9	8	9	8	8	9	9	8	8	7	100
Auto rental tax	5	0	20	0	0	31	1	0	27	0	0	15	100
Business taxes	4	1	18	3	3	18	2	2	19	3	2	25	100
Corporation franchise tax	4	(1)	19	3	2	19	2	1	19	2	2	28	100
Corp. & utilities taxes	1	0	19	1	1	22	0	1	25	1	0	30	100
Insurance taxes	1	0	21	1	1	21	1	1	20	1	0	33	100
Bank tax	2	(1)	30	1	0	21	0	(1)	24	(1)	0	25	100
Petroleum business taxes	8	8	8	9	9	9	8	7	8	9	8	8	100
Other taxes	8	7	10	8	9	8	9	7	9	9	8	6	100
Estate and gift taxes	7	8	10	8	8	8	8	7	9	10	9	6	100
Real estate transfer tax	8	7	9	8	11	9	11	7	10	8	7	6	100
Pari-mutuel taxes	5	9	10	9	13	12	8	8	7	6	7	8	100
Other taxes	8	5	6	2	10	17	20	0	13	11	5	4	100
TOTAL	13	4	10	6	6	11	6	6	11	12	7	7	100

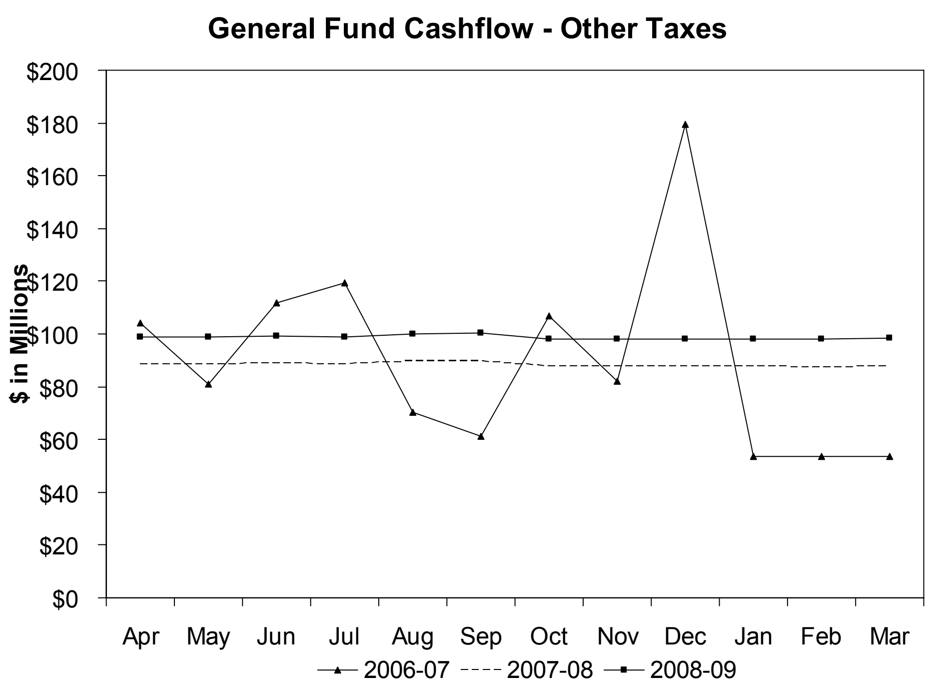

General Fund Cashflow - Total Taxes
$7
$6
$5
$4
$3
$2
$1
$0
$ in Billions
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
2006-07 2007-08 2008-09


General Fund Cashflow - Personal Income Tax
$6
$5
$4
$3
$2
$1
$0
($1)
$ in Billions
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
2006-07 2007-08 2008-09


General Fund Cashflow - Sales Tax
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
$ in Millions
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
2006-07
2007-08
2008-09


General Fund Cashflow - Other User Taxes and Fees
$80
$70
$60
$50
$40
$30
$20
$10
$0
$ in Millions
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
2006-07
2007-08
2008-09


General Fund Cashflow - Business Taxes
$ in Millions
$2,000
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2006-07
2007-08
2008-09


General Fund Cashflow - Other Taxes
$ in Millions
$200
$180
$160
$140
$120
$100
$80
$60
$40
$20
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Apr
May
Jun
Jul
Aug
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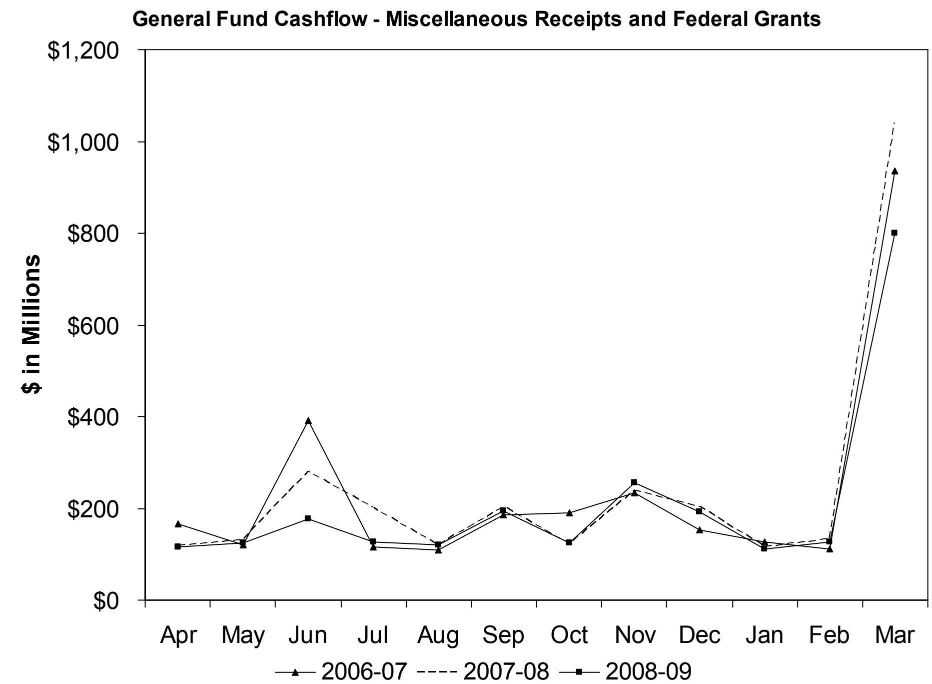
2006-07
2007-08
2008-09


General Fund Cashflow - Miscellaneous Receipts and Federal Grants
$1,200
$1,000
$800
$600
$400
$200
$0
$ in Millions
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2006-07
2007-08
2008-09

RESULTS TO DATE

GENERAL FUND RESULTS TO DATE COMPARISON (millions of dollars)							
	Apr-Dec 2005-06 Actuals	July Update	Mid-Year Update	Apr-Dec 2006-07 Actuals	Difference from July Update	Difference from Mid-Year Update	Year-over-year growth (percent)
Personal income tax	13,755	14,990	15,019	14,605	(385)	(414)	6.2
Gross receipts	25,426	27,709	27,750	27,388	(321)	(362)	7.7
Refunds	(4,062)	(3,681)	(3,682)	(3,874)	(193)	(192)	(4.6)
STAR	(3,024)	(4,041)	(4,041)	(4,041)	0	0	33.6
DRRF/RBTF	(4,585)	(4,997)	(5,008)	(4,868)	129	140	6.2
User taxes and fees	6,557	6,190	6,168	6,264	74	96	(4.5)
Sales and use tax	6,037	5,693	5,657	5,748	55	91	(4.8)
Cigarette and tobacco taxes	319	319	318	321	2	3	0.6
Motor vehicle fees	24	0	0	0	0	0	(100.0)
Alcoholic beverage tax	145	146	147	149	3	2	2.8
ABC license fees	32	32	46	46	14	0	43.8
Business taxes	3,476	3,888	4,260	4,519	631	259	30.0
Corporation franchise tax	1,838	2,121	2,501	2,666	545	165	45.0
Corporation and utilities	408	428	426	454	26	28	11.3
Insurance taxes	658	740	737	754	14	17	14.6
Bank tax	572	599	596	645	46	49	12.8
Other taxes	708	727	755	917	190	162	29.5
Estate and gift taxes	688	710	738	898	188	160	30.5
Real property gains tax	1	1	1	1	0	0	0.0
Pari-mutuel tax	18	16	16	17	1	1	(5.6)
Other taxes	1	0	0	1	1	1	0.0
TOTAL TAXES	24,496	25,795	26,202	26,305	510	103	7.4
Miscellaneous receipts & federal grants	1,335	1,738	1,959	1,670	(68)	(289)	25.1
Transfers	6,976	7,153	7,070	7,090	(63)	20	1.6
From RBTF	4,331	4,681	4,693	4,570	(111)	(123)	5.5
From LGATF	1,856	1,795	1,778	1,803	8	25	(2.9)
From CW/CA	600	480	460	582	102	122	(3.0)
From other funds	189	197	139	135	(62)	(4)	(28.6)
TOTAL RECEIPTS	32,807	34,686	35,231	35,065	379	(166)	6.9

APRIL-DECEMBER RESULTS VS. THE MID-YEAR UPDATE PROJECTIONS

Cumulative results for the April to December period are $166 million below the Mid-Year forecast, mainly due to lower-than-expected estimated tax payments and higher-than-anticipated refunds of personal income tax, and lower-than-anticipated miscellaneous receipts collections, offset by higher-than-expected corporate franchise tax and estate tax receipts.

Personal Income Tax

April through December General Fund PIT receipts of $14.6 billion were $414 million below the Mid-Year forecast, due mainly to lower-than-expected estimated tax payments on 2006 liabilities ($396 million) and to higher-than-expected refunds ($192 million). It is expected that the weakness in estimated payments will be made up in the final quarter of the 2006-07 State fiscal year. The RBTF transfer was $140 million lower-than-estimated.

User Taxes and Fees

April through December General Fund User Taxes and Fees were $96 million above the Mid-Year forecast, due primarily to higher-than-expected sales and use tax collections ($91 million). This increase reflects a slight increase in the sales tax base.

Business Taxes

Year-to-date General Fund business tax receipts exceeded cash flow expectations by $259 million. The variance is attributable to higher-than-projected receipts from the corporate franchise tax ($165 million), bank tax ($49 million), corporation and utilities tax ($28 million) and insurance taxes ($17 million).

Other Taxes

Other taxes for April through December period were $162 million greater than the Mid-Year forecast due to a large estate tax payment and continued strength in the real estate transfer tax.

Miscellaneous Receipts and Federal Grants

General Fund miscellaneous receipts and Federal grants were $289 million below Financial Plan estimates due to lower-than-expected abandoned property collections ($139 million), Federal grants ($17 million), and lower reimbursement from local governments ($143 million), slightly offset by higher-than-anticipated collections from investment income ($66 million).

All Other

The remainder of the change from the Mid-Year Update was an increase in transfers from other funds ($20 million).

APRIL-DECEMBER RESULTS VS. THE JULY UPDATE PROJECTIONS

Cumulative results for the April to December period are $379 million above the First Quarterly Update, mainly due to higher-than-expected corporate franchise and estate tax collections. These increases were offset by lower-than-expected estimated payments and higher-than-expected refunds of the personal income tax and lower-than-projected miscellaneous receipts collections.

Personal Income Tax

April through December General Fund PIT receipts of $14.6 billion were $385 million below the First Quarterly Update, due mainly to lower-than-expected estimated tax payments on 2006 liabilities ($321 million) and to higher-than-expected refunds ($193 million). The RBTF transfer was $129 million lower-than-estimated.

User Taxes and Fees

April through December General Fund User Taxes and Fees were $74 million above July Update, due mainly to higher-than-expected sales and use tax collections ($55 million) and alcoholic beverage control license fees ($14 million).

Business Taxes

Year-to-date General Fund business tax receipts exceeded the cash flow projections included in the July Update by $631 million. The bulk of the variance, or $545 million, is primarily attributable to exceptionally large audit collections in the corporate franchise tax received in December 2006. The remaining difference was attributable to the bank tax ($46 million), corporation and utilities tax ($26 million) and insurance tax ($14 million).

Other Taxes

Other taxes for April through December period were $190 million greater than the July Update forecast mainly due to a large estate tax payment and continued strength in the real estate transfer tax.

Miscellaneous Receipts & Federal Grants

General Fund miscellaneous receipts and Federal grants were $68 million below First Quarterly Update estimates due mainly to lower-than-expected abandoned property collections ($141 million) and Federal grants ($21 million), offset by higher-than-anticipated collections from investment income ($79 million) and licenses and fees ($37 million).

All Other

The remainder of the change from the July Update was due to a decrease in transfers from other funds ($63 million).

REVENUE ACTIONS

REVENUE ACTIONS

The 2007-08 Budget includes a net negative increment of $73 million in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarizes the revenue proposals by type of action required (legislative or administrative) and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, the last time an action was taken in the area and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

FEE AND REVENUE ACTIONS LIST
(dollars in thousands)

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2007-08 (000's)	New Full Annual Revenue SFY 2009-10 (000's)
I. ADMINISTRATIVE							
CFS	Sale of vacant surplus building in Brooklyn that was to become Youth Opportunity Center – 4/1/07	GFMR	N/A	N/A	N/A	$2,665	$0
CFS	Youth facility per diem revenue prior years reconciliation – 4/1/07	GFMR	N/A	N/A	2006	$16,200	$26,700
CFS	Use of anticipated new interim rates charged to counties for youth in OCFS youth facilities – 4/1/07	GFMR	N/A	N/A	N/A	$7,100	$8,600
DPS	Increase Article 18-A assessment to support various State Agency operations related to utilities – 4/1/07	SFMR	N/A	N/A	2006	$5,054	$5,054
ERDA	Increase assessment to support spending for Article 18-A Utility costs - 4/1/07	SFMR	N/A	N/A	1998	$1,400	$1,400
ESDC	Increased cost recovery billings for public authorities deposited into Revenue Arrearage account – upon enactment	SFMR	N/A	N/A	N/A	$7,000	$7,000
				Administrative Actions - Subtotal		**$39,419**	**$48,754**
II. STATUTORY							
HLTH OTH	HCRA - increase covered lives assessments - 4/1/07	SFMR	N/A	N/A	N/A	$75,000	$75,000
HLTH OTH	HCRA - additional insurance conversion – 4/1/07	SFMR	N/A	N/A	N/A	$0	$300,000
HLTH OTH	Early Intervention (EI) provider fees - 4/1/07	SFMR	N/A	$125 for Individual EI; $225 for Agency EI	N/A	$400	$400

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2007-08 (000's)	New Full Annual Revenue SFY 2009-10 (000's)
HLTH OTH	Increase physician registration fee - 7/1/07	SFMR	$600 Biennially	$1,000 Biennially	1996	$11,250	$15,000
HLTH OTH	Appropriates existing training contract fee revenue in DOH – 4/1/07	SFMR	N/A	5%	N/A	$1,000	$1,000
DOH/CMS	Federal State Health Reform Partnership Program – annual funding – 10/01/06-9/30/11	SFMR	N/A	N/A	2006	$300,000	$300,000
DMNA	Implement a new security assessment on nuclear power plant operators - 4/1/07	SFMR	N/A	N/A	N/A	$9,750	$13,000
ENCON	EPF bottle bill - 1/1/08	CFMR/DFMR	N/A	N/A	N/A	$25,000	$100,000
ENCON	Increase well drilling registration fees – 4/1/07	SFMR	$10	$100	2000	$4	$48
ENCON	Increase Title V Federal air regulatory fees – 4/1/07	SFMR	$45 per ton	$67 per ton (minimum $1,250)	1999	$6,400	$6,400
ENCON	Increase water monitoring fees (State Pollution Discharge Elimination System) – 4/1/07	SFMR	$100 (small); $200 (large)	$300 (small); $600 (large)	1983	$612	$1,838
ENCON	Increase general permit fees for concentrated animal feeding operations (CAFOS) – 4/1/07	SFMR	$50	$150 (medium); $500 (large)	1983	$40	$110
ENCON	Increase industrial streamwater discharge permits – 4/1/07	SFMR	$50	$300	1983	$83	$417
NYSP	Deploy cameras to enforce speed limit and safety in work zones - 4/1/07	SFMR	N/A	$50	N/A	$18,800	$37,500
SED	VLT expansion proposal upon enactment -	SFMR	N/A	N/A	N/A	$0	$357,000
Medicaid	Continues 6 percent nursing home assessment beyond statutory expiration date of March 31, 2009 - 3/31/09	GFMR/SFMR	6%	6%	2006	$0	$453,000
Medicaid	Continues 0.35 percent Hospital Cash Assessment beyond statutory expiration date of March 31, 2007 – 4/1/07	GFMR/SFMR	0.35%	0.35%	2005	$136,900	$149,500
OCA	Increase criminal history search fee – 4/1/07	SFMR	$52	$60	2003	$6,600	$8,000
					Statutory Actions - Subtotal	**$591,839**	**$1,818,213**
					ADMINISTRATIVE AND STATUTORY - TOTAL	**$631,258**	**$1,866,967**

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2007-08 (000's)	New Full Annual Revenue SFY 2009-10 (000's)
III. OTHER REVENUE ACTIONS							
T&F	Restructure and extend higher LLC fees – 1/1/07	GFTX/DFTX	N/A	N/A	2005	$30,000	$30,000
T&F	Eliminate the use of out-of-State entities to shelter partnership income from tax – 1/1/07	GFTX/DFTX	N/A	N/A	N/A	$0	$15,000
T&F	Eliminate the use of S corporation elections to shelter income – 1/1/07	GFTX/DFTX	N/A	N/A	N/A	$0	$100,000
T&F	Conform the treatment of itemized sales tax deductions to the treatment of State and local income tax deductions – 1/1/07	GFTX/DFTX	N/A	N/A	N/A	$0	$0
T&F	Repeal school property tax credit under the PIT (see middle class STAR below) – 1/1/07	GFTX/DFTX	N/A	N/A	2006	$0	$675,000
T&F	Tax full cost of Internet hotel costs – 6/1/07	GFTX/DFTX	N/A	N/A	N/A	$16,000	$21,500
T&F	Require the filing of combined returns for certain corporate franchise taxpayers – 1/1/07	GFTX/SFTX	N/A	N/A	1945	$215,000	$215,000
T&F	Decouple from Federal deduction related qualified production activities income – 1/1/07	GFTX/SFTX	N/A	N/A	N/A	$29,000	$35,000
T&F	Make the reporting of tax Shelters permanent – 7/1/07	GFTX/SFTX	N/A	N/A	2005	$17,000	$17,000
T&F	Eliminate competitive advantage afforded to certain exempt cooperative insurance companies – 1/1/07	GFTX	N/A	N/A	1974	$23,000	$18,000
T&F	Conform to the treatment of expenses related to subsidiary capital under the bank tax to the corporate franchise tax – 1/1/07	GFTX/SFTX	N/A	N/A	1985	$40,000	$32,000
T&F	Conform to Federal bad debt deduction for banks – 1/1/07	GFTX/SFTX	N/A	N/A	1987	$15,000	$12,000
T&F	Eliminate the use of real estate investment trusts to shelter income – 1/1/07	GFTX/SFTX	N/A	N/A	N/A	$104,000	$83,000
T&F	Eliminate the use of grandfathered corporate franchise tax companies to shelter income – 1/1/07	GFTX/SFTX	N/A	N/A	1985	$22,000	$18,000
					Other Revenue Actions - Subtotal	**$511,000**	**$1,271,500**

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2007-08 (000's)	New Full Annual Revenue SFY 2009-10 (000's)
IV. REVENUE REDUCTIONS							
T&F	Expanded STAR program – NYC PIT: 1/1/07; STAR relief: 7/1/07	GFTX	N/A	N/A	N/A	($1,211,000)	($2,038,000)
T&F	Income tax deduction for primary/secondary tuition - 1/1/07	GFTX/DFTX	N/A	N/A	N/A	$0	($25,000)
T&F	Increase and make permanent low income housing credit - 1/1/07	GFTX	N/A	N/A	N/A	($4,000)	($12,000)
					Revenue Reductions - Subtotal	**($1,215,000)**	**($2,075,000)**
					OTHER REVENUE ACTIONS AND REDUCTIONS - TOTAL	**($704,000)**	**($803,500)**
					ALL FEE AND REVENUE ACTIONS - GRAND TOTAL	**($72,742)**	**$1,063,467**

The accompanying table summarizes enacted revenue actions taken over the past three state fiscal years by type of action (legislative or administrative) and provides a short description of the action, the date this action took place, the Fund type where the revenue is deposited and the incremental revenue gain or loss from the action.

ENACTED REVENUE ACTIONS
2004-05 through 2006-07
($ in thousands)

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
I. ADMINISTRATIVE					
AGMKTS	First violation food inspections	1/1/05	GFMR	$300	$400
CIV SVC	Increase exam fees sweep	4/1/04	SFMR	$5	$125
DCJS	Increase record review fee	4/1/04	GFMR	$50	$125
DHCR	Increase low income housing credit monitoring	10/1/04	SFMR	1%	$0
DHCR	Increase low income housing tax credit application fees	On or before 2/27/06	SFMR	$2,000 / 6%	$500
DOT	Increase divisible load permits and fines	4/1/04	CFMR	$360 - $900	$1,500
DOT	Increase divisible load permits and fines	4/1/04	GFMR	$150 - $3,750 + %	$3,000
GSC	Medicare Part D subsidy	1/1/06	GFMR	None	$67,300
PARKS	Increase weekend camping fees	4/1/05	SFMR	$17	$1,400
STATE	Campus fire safety	4/1/04	GFMR	$50 - $500	$128
CFS	Sales of YOCS building	4/1/06	GFMR	N/A	$0
CFS	Youth facility chargeback	4/1/06	GFMR	N/A	$1,000
DOT	Increase accident damage revenues	4/1/06	SFMR	N/A	$750
NYPA	Pilot payments	4/1/06	GFMR	N/A	($100,000)
OGS	Real property sales proceeds	4/1/06	SFMR	N/A	$0
PARKS	Parks user fees	4/1/06	SFMR	Various	$1,000
ERDA	3-Way agreement to restore PORC transfer to New York Power Authority. Includes Article VII transfer to the General Fund	Immediately	SFMR	N/A	$0
				Administrative Actions - Subtotal	**($22,772)**
II. STATUTORY					
ABC	Increase filing fees	4/1/04	GFMR	Various Licensing Fees	$400
CPB	Increase fine	9/1/04	SFMR	$11,000	$200
CVB	Mandatory fees youthful offenders	8/1/04	SFMR	Felony - $250 Misdemeanor - $140 Violation - $75	$1,080
CVB	Sex offender fee	8/1/04	SFMR	$1,000	$1,112
DMV	Data search fee	10/1/05	SFMR/CFMR	$7 & $10	$24,000

REVENUE ACTIONS

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
DMV	Photo image fee	10/1/05	SFMR/CFMR	$10	$15,000
DOL	Boiler inspections	8/20/04	SFMR	Various	$2,306
DOL	Explosives magazine storage	8/20/04	SFMR	$50	$30
DOL	Amusement device	8/20/04	SFMR	$100	$59
DOL	Asbestos licenses	8/20/04	SFMR	$500	$590
DOL	Asbestos certifications	8/20/04	SFMR	Various	$818
DOL	Apparel registration renewal	8/20/04	SFMR	$150	$284
DOL	Easement day of rest	8/20/04	SFMR	$40	$3
DOL	Farm Permits	8/20/04	SFMR	Grower - $40 Labor Contractor - $200	$25
DOL	Defense dispensation	8/20/04	SFMR	$40	$1
DOL	Employment agency	8/20/04	SFMR	$700	$1
DOL	Commissary operator permits	8/20/04	SFMR	$40	$0
ENCON	Extend waste tire fee	9/12/03	GFMR/SFMR	$2.50	$25,500
ENCON	Increase storm water fees	4/1/04	GFMR/SFMR	$50 - $350	$2,100
ENCON	ATV registration fee increase	4/1/05	SFMR	$25	$2,500
HLTH OTH	Increase hospital surcharge	1/1/06	SFMR	6.54% on Government payers; 8.95% on other payers - net patient revenue	$13,000
HLTH OTH	Increase covered lives assessment	1/1/06	SFMR	$775 million Statewide target	$50,000
INS	Agent license fee increase	4/1/05	GFMR	$40	$2,670
INS	Service of process fee increase	4/1/05	GFMR	$40	$1,356
INS	Reinsurance license fee increase	4/1/05	GFMR	$500	$30
MEDASST	Nursing home assessment	4/1/04	SFMR	5% of gross revenue	$377,300
MEDASST	Increase nursing home reimbursable assessment to 6 percent	4/1/05	SFMR	6%	$69,200
MEDASST	Establish hospital assessment	12/1/05	SFMR	0.35% of gross revenue	$106,000
NYPA	Pilot payments	4/1/05	GFMR	None	$100,000
ORPS	Real property transfer filing fee	9/1/04	SFMR	Homes & Farms - $75; Other properties - $165	$18,900
PARKS	Increase snowmobile fee	8/1/04	GFMR/SFMR	$45	$5,500
PARKS	Increase non club members snowmobile fee	4/30/06	GFMR/SFMR	$100	$8,085
RWB	Racing fee increase	4/1/05	SFMR	0.50%	$2,600
BANKING	Increase fines/penalties	4/1/06	GFMR/SFMR	Various	$8,000
DMV	Internet point insurance reduction program	4/16/06	SFMR	$8 Student fee $7,500 insurance company provider fee	$2,400

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
DMV	Dedication of additional driver responsibility assessment revenue to DHBTF	4/1/06	CPMR	N/A	$28,569
ENCON	ATV registration fee	60 days after enactment	GFMR/SFMR	$10 to GF	($2,500)
HLTH OTH	HCRA - compliance/delinquency billings	4/1/06	SFMR	N/A	$50,000
MEDICAID	Continue nursing home reimbursable assessment	4/1/07	GFMR/SFMR	6.0%	$0
OSC	Accelerate dormancy periods for abandoned property	4/1/06	GFMR	Various	$0
TSCR	Tribal State Compact	4/1/06	SFMR	N/A	$5,800
				Statutory Actions - Subtotal	**$922,919**
				ADMINISTRATIVE AND STATUTORY ACTIONS - TOTAL	**$900,147**

III. OTHER REVENUE ACTIONS

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
DMV	Driver responsibility program	8/20/05	GFTX	$100 & $250	$44,300
DMV	Dealer issued temporary registration fee increase	10/1/05	SFTX/CFTX	$5	$2,400
DMV	Dealer/transporter registration fee increase	10/1/05	SFTX/CFTX	$450 & $37.50	$1,200
DMV	Insurance buyback program expansion	10/1/05	SFTX/CFTX	$8, $10 & $12	$7,850
DMV	Salvaged vehicle inspection fee increase	10/1/05	SFTX/CFTX	$150	$1,600
DMV	Title fee increase	10/1/05	SFTX/CFTX	$20 & $50	$125,000
Legislature	Mortgage recording tax	4/12/05	Local Revenue	None	$0
Legislature	Increase MTA sales and compensating use tax	6/1/05	SFTX	None	$245,300
Legislature	Native American regulations	9/1/05	GFTX/ SFTX	None	$60,000
Legislature	Authorizes the Interstate direct shipment of wine	7/12/05	GFTX/DFTX	None	$3,800
OSC	Abandoned property - Administrative	4/1/04	GFMR	N/A	$21,000
T&F	Add new fixed dollar minimum	1/1/04	GFTX	None	$0
T&F	Reverse *Meyers* decision	1/1/04	GFTX/DFTX	None	$0 acceleration
T&F	Tax nonresidents' gain from sale of co-op stock	1/1/04	GFTX/DFTX	Tax Base	$20,000
T&F	Seven day sales of alcoholic beverages	8/20/04	GFTX/DFTX	None	$2,000
T&F	Adopt tax shelter provisions	1/1/05	GFTX	None	$0
T&F	Change computation of long term care insurance credit for nonresidents	1/1/05	GFTX/DFTX	None	$6,000
T&F	Extend higher LLC fees	1/1/05	GFTX/DFTX	None	$0

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	Increase capital base cap under Article 9A from $350,000 to $1 million	1/1/05	GFTX	None	$26,000
T&F	Internet affiliate	1/1/05	GFTX/DFTX	None	$25,000
T&F	Allow tax department to enter into reciprocal offset agreements with other states	4/12/05	GFTX/DFTX	None	$2,000
T&F	Maintain Manhattan parking reporting requirements	4/12/05	GFTX/DFTX	None	$700
T&F	Delay permanent clothing exemption and create two exemption weeks at $110 threshold	8/20/04	GFTX/DFTX	None	$0
T&F	Sales tax intercept for Medicaid cap	4/12/05	GFTX/DFTX	None	$0
T&F	Sales tax on amusement park admissions	4/12/05	GFTX/DFTX	None	$0
T&F	Delay permanent clothing exemption with two $110 weeks and offer local option	6/1/05	GFTX/DFTX	None	$0
T&F	Extend Federal Gramm-Leach Bliley Act provisions for two years	1/1/06	GFTX	N/A	$0
T&F	Amend the make permanent Article 9 sections 183/184 distributions to DHBTF and MTOAF	4/1/06	GFTX	N/A	$0
T&F	Extend bank tax reform provisions for two years	1/1/06	GFTX	N/A	$0
T&F	Clarify treatment of taxability of certain income for non-State residents	1/1/06	GFTX/DFTX	N/A	$1,000
T&F	Limit amount that can offset EITC for debts owed to OTDA	1/1/07	GFTX/DFTX	N/A	$0
			Other Revenue Actions - Subtotal		**$595,150**
IV. REVENUE REDUCTIONS					
Legislature	Empire zones	1/1/05	GFTX	None	($44,000)
Legislature	Farmers school tax credit for family property	1/1/05	GFTX/DFTX	Credit	($500)
Legislature	Motion picture production ITC	1/1/05	GFTX/DFTX	Credit	$0
Legislature	Qualified emerging technology credit	1/1/05	GFTX	None	($10,000)
Legislature	Security guard training credit	1/1/05	GFTX/DFTX	Credit	($5,000)
Legislature	CAPCOs	4/1/05	GFTX	None	($6,000)
Legislature	Single sales factor (Everyone)	4/1/05	GFTX	None	($80,000)
Legislature	Transferability of CAPCO credits	4/1/05	GFTX	None	$0
Legislature	Solar energy system credit	1/1/06	GFTX/DFTX	Credit	($500)
Legislature	Farmers school tax credit for commercial horse boarding	1/1/06	GFTX/DFTX	Credit	($500)

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	Extend alternative fuels vehicle credit	1/1/04	GFTX/DFTX	$2,000 Credit	$0
T&F	Exempt federal military pay	1/1/04	GFTX/DFTX	0%	($1,000)
T&F	Low income housing	1/1/04	GFTX/DFTX	None	($2,000)
T&F	Film production credit	1/1/04	GFTX/DFTX	None	($25,000)
T&F	Brownfield expansion	4/1/05	GFTX	None	($30,000)
T&F	Petroleum business tax on flights	11/1/04 & 6/1/05	CFTX/SFTX	None	($2,700)
T&F	Aircraft repair parts and labor	12/1/04	GFTX/DFTX	None	($2,000)
T&F	Water taxis	12/1/04	GFTX/DFTX	None	($400)
T&F	Long term care credit	1/1/04	GFTX/DFTX	None	($18,000)
T&F	Low income housing	1/1/05	GFTX/DFTX	None	($2,000)
T&F	Personal income tax credit for payers of the nursing home assessment	1/1/05	GFTX/DFTX	Credit	($40,000)
T&F	Exempt lower Manhattan office equipment from sales tax	9/1/05	GFTX/DFTX	None	($18,000)
T&F	Exempt residential solar equipment from sales tax	12/1/05	GFTX	None	($200)
T&F	Exempt coin operated automatic car washes from sales tax	12/1/05	GFTX	None	($1,300)
T&F	Exempt marine container machinery and equipment from sales tax	12/1/05	GFTX	None	$0
T&F	Exempt waste transfer station services from sales tax	12/1/05	GFTX/DFTX	None	($3,800)
T&F	CAPCOs	2006	GFTX	None	($6,000)
T&F	Green buildings tax credit	1/1/06	GFTX	None	($2,000)
T&F	Exempt State chartered credit unions from sales tax	3/1/06	GFTX/DFTX	None	($1,700)
T&F	Exempt electricity produced by co-op cogeneration facility from sales tax	4/1/06	GFTX/DFTX	None	$0
T&F	Small business rate reduction	4/1/05	GFTX	$0	($5,000)
T&F	Personal income tax credit for special additional mortgage recording tax	1/1/04	GFTX/DFTX	Credit	($500)
T&F	Acceleration of six Empire Zones	1/1/06 & 1/1/07	GFTX	N/A	$0
T&F	Low-income housing credit	1/1/06	GFTX	N/A	($4,000)
T&F	Empire State film production credit	1/1/09	GFTX	N/A	($35,000)
T&F	Marginal tax rate for annuity premiums	1/1/06	GFTX	N/A	($3,000)
T&F	Eliminate S-corp differential rate	1/1/06	GFTX	N/A	($40,000)
T&F	Extension of lower REITS	Immediately	CFTX/DFTX	N/A	$0
T&F	Personal income and corporate franchise tax for the restoration of historic homes and buildings	1/1/06	GFTX/DFTX	N/A	($20,000)

REVENUE ACTIONS

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	Strengthening families - expand EITC to non-custodial parents	1/1/06	GFTX/DFTX	N/A	($20,000)
T&F	Eliminate personal income tax marriage penalty	1/1/06	GFTX/DFTX	N/A	($50,000)
T&F	Land conservation credits	1/1/06	GFTX/DFTX	N/A	($2,000)
T&F	Encourage alternative fuel production - Biofuel/Alternative refueling property	1/1/06	GFTX	N/A	($10,000)
T&F	National Guard personal income tax exemption	1/1/04	GFTX/DFTX	N/A	($1,000)
T&F	Personal income tax credit for improving home energy system/bio-heat	Expenses incurred between 7/1/06 and 6/30/07	GFTX/DFTX	N/A	($13,000)
T&F	STAR Rebate/Credit	School years beginning in 2006 (rebate), tax years beginning after 2006 (credit)	SFTX	N/A	($675,000)
T&F	Enhanced STAR exemption	1/1/07	SFTX	N/A	$0
T&F	Sales tax exemption for admission charges to amusement parks	4/1/06	GFTX/DFTX	N/A	($1,000)
T&F	Sales tax vendor credit	9/1/06	GFTX/DFTX	N/A	($54,000)
T&F	Hold the MTA harmless for Clothing	4/1/06	GFTX	N/A	($14,000)
T&F	Cabaret exemption	12/1/06	GFTX/DFTX	N/A	($2,200)
T&F	Credit card bad debt provisions	1/1/07	GFTX/DFTX	N/A	($8,100)
T&F	Exempt alternative fuels from petroleum business tax, motor fuel tax, highway use tax and sales tax	9/1/06 - 9/1/11	GFTX/DFTX	N/A	($3,100)
T&F	Farmer's credit	1/1/06	GFTX/DFTX	N/A	($10,000)
T&F	Enforcement of Native American regulations	3/1/07	GFTX/SFTX	N/A	$0
T&F	Child credit	1/1/06	GFTX/DFTX	N/A	($600,000)
T&F	Credit for voluntary firefighters	1/1/06	GFTX/DFTX	N/A	($20,000)
T&F	Sales tax on clothing returned to permanent	4/1/06	GFTX/DFTX	N/A	$0
T&F	Empire Zones - clean energy R&D enterprise	1/1/06	GFTX	N/A	$0
T&F	Brownfields - extend Empire Zone criteria	4/1/06	GFTX	N/A	$0
T&F	Commercial production credit	1/1/07	GFTX	N/A	($7,000)
T&F	Pari-mutuel rate and reductions	4/1/06	GFTX	N/A	($1,500)
T&F	Contract compliance	4/1/06	GFTX/DFTX	N/A	$0
T&F	Deduction for organ donors	1/1/07	GFTX	N/A	$0

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue (000's)
T&F	Increased NYC STAR Credit	1/1/06	SFTX	N/A	($212,500)
T&F	Additional STAR participation	School years beginning in 2007 and after	SFTX	N/A	($80,000)
T&F	Gas tax	6/1/06	GFTX/DFTX	N/A	($127,000)
T&F	Zone benefits for investment	Immediately through 12/31/07	GFTX	N/A	($20,000)
T&F	Brownfield benefits for condos and co-ops	Immediately	GFTX	N/A	$0
T&F	Alternative fuels vehicles credit amendments	1/1/06	GFTX	N/A	($2,000)
T&F	First year business employment test	Immediately	GFTX	N/A	$0
T&F	Zone benefits for certain Brownfield businesses	Immediately	GFTX	N/A	$0
T&F	Credit handicapped taxicab companies	1/1/06	GFTX	N/A	($3,000)
				Revenue Reductions - Subtotal	**($2,346,500)**
				OTHER REVENUE ACTIONS AND REVENUE REDUCTIONS - TOTAL	**($1,751,350)**
				ALL FEE AND REVENUE ACTIONS - GRAND TOTAL	**($851,203)**

Key:

CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax

ECONOMIC BACKDROP

ECONOMIC BACKDROP

EXECUTIVE SUMMARY

THE NATIONAL ECONOMY

The U.S. economy lost substantial momentum over the course of 2006, precipitated by the Federal Reserve's recent cycle of monetary tightening. The Budget Division currently projects a decline in real U.S. GDP growth from 3.3 percent in 2006 to 2.3 percent for 2007. The Budget Division is not forecasting a near-term recession at this time. The forecast assumes a return to trend growth for the 2008-10 period. The Budget Division's outlook for 2007 is consistent with those of other professional forecasters.

- The primary causes of the current economic slowdown are:
  - The effects of the Federal Reserve's past interest rate hikes.
  - A correction in the nation's housing market.
  - An inventory correction stemming largely from weakness in the manufacturing sector, particularly the domestic auto industry.

- Although energy prices are expected to rise from their current levels over the course of the year, they are not expected to return to the highs of the summer of 2006. Consequently, the Budget Division projects inflation to fall to 2.3 percent for 2007, following price growth of 3.6 percent for 2006. The Federal Reserve is expected to hold its federal funds target rate steady at 5.25 percent through the end of this year.

- Consistent with the slowdown in the national economy, employment growth is projected to fall to 1.1 percent for 2007, following growth of 1.4 percent for 2006. The unemployment rate is expected to increase slightly to 4.9 percent for 2007 from 4.7 percent in 2006.

- Risks to the Budget Division forecast include a more severe decline in the nation's housing sector than expected, and a weakening in both household spending and business investment further than projected.

THE NEW YORK STATE ECONOMY

Consistent with the national slowdown, the New York State economy is slowing as well. State private sector employment growth is projected to fall from 1.0 percent in 2006 to 0.8 percent for 2007.

- As the New York State Coincident Economic Index indicates, the State's business cycles coincide with those of the nation. Overall, the Division does not predict a recession for New York. However, outside New York City the economy has slowed significantly. For most of the past decade there has been no job growth in the industrial sectors of Upstate New York, especially Western New York and the Finger Lakes region.

- New York State personal income growth is projected to slow from 6.8 percent in 2006 to 5.6 percent in 2007, with growth in its largest component, wages and salaries, slowing from 7.5 percent in 2006 to 5.7 percent in 2007.

- The major factors slowing the U.S. economy pose unique risks to New York:

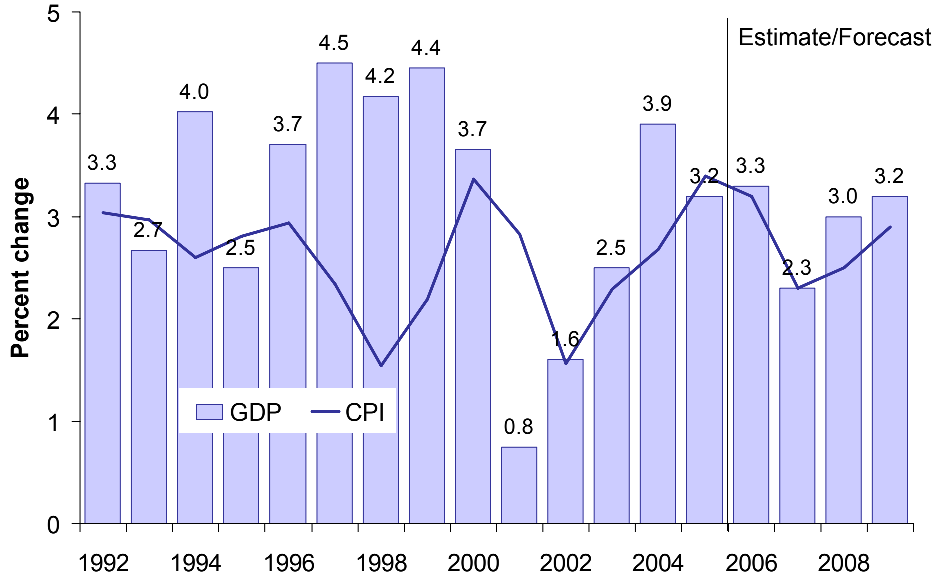
  - As the world's financial capital, the New York economy may be particularly sensitive to the effects of the Federal Reserve's past interest rate increases.
  - Production cuts within the domestic auto industry represent a particular risk to Upstate's already weakened manufacturing sector.
  - The continued slowdown in the State's real estate market, following several years of strong growth, could negatively affect both household wealth and the State's construction industry.

OVERVIEW

The U.S. economy has lost substantial momentum since the fall of 2005. Large declines in residential construction, combined with past energy price and interest rate increases, have generated a significant drag on economic growth. In addition, recent trends in manufacturing signal the potential for a substantial inventory correction. Based on these developments, the slowdown in the national economy is likely to continue through the beginning of this year, landing gently near 2 percent. With the impact of the Federal Reserve's most recent tightening cycle almost fully realized and energy prices taking a respite from their summer peaks, the pace of economic growth is expected to return to its long-term trend rate of about 3 percent by the end of 2007.[1] The Budget Division projects growth of 2.3 percent for 2007, following growth of 3.3 percent for 2006 (see Figure 1). These same forces are expected to have a dampening effect on inflation. Consumer prices are projected to rise 2.3 percent in 2007, following a 3.2 percent increase in 2006.

[1] See Box 1 for a description of the Budget Division's methodology for estimating the national economy's long-term "potential" growth rate.

Figure 1
Outlook for Real U.S. GDP Growth and Inflation



Note: Displayed values pertain to GDP growth.
Source: Moody's Economy.com; DOB staff estimates.

The decline in U.S. output growth to 2.0 percent in the third quarter of 2006 was reminiscent of the slowdown that occurred just prior to the Iraq war that raised fears of a "double-dip" recession. Indeed, similar fears have been resurrected by the current slowdown, with some speculating that the economy's weakest sectors — the housing and auto industries — could drag the rest of the economy down as well. The inverted yield curve we currently observe has almost always been associated with a recession. However, several countervailing forces are expected to keep the economy afloat. The national labor market remains healthy, with signs of shortages in some industries. Solid underlying growth in employment and income has kept household spending growing at steady, albeit below trend rates. Corporate earnings have thus far remained strong and the nation's largest firms remain cash-rich, though profit growth is expected to fall going forward. Finally, steady growth in the global economy continues to generate demand for U.S. exports. Thus, the Budget Division is not forecasting a recession at this time.

The New York State economy has not been immune to the current national slowdown. Indeed, because of the State's position as a financial market capital, the State economy is expected to be more sensitive to the Federal Reserve's monetary tightening than the economies of other states. Weakness in the national residential housing and auto sectors is also being felt in New York. While the finance, education and health, tourism, and professional and business services sectors are expected to continue to lead the State economy, the overall pace of growth is expected to slow going forward. State private sector employment is projected to grow 0.8 percent this year, following growth of 1.0 percent for 2006. Correspondingly, the Budget Division now projects growth in State wages to slow from 7.5 percent in 2006 to 5.7 percent in 2007, with growth in total State personal income slowing from 6.8 percent in 2006 to 5.6 percent for 2007.

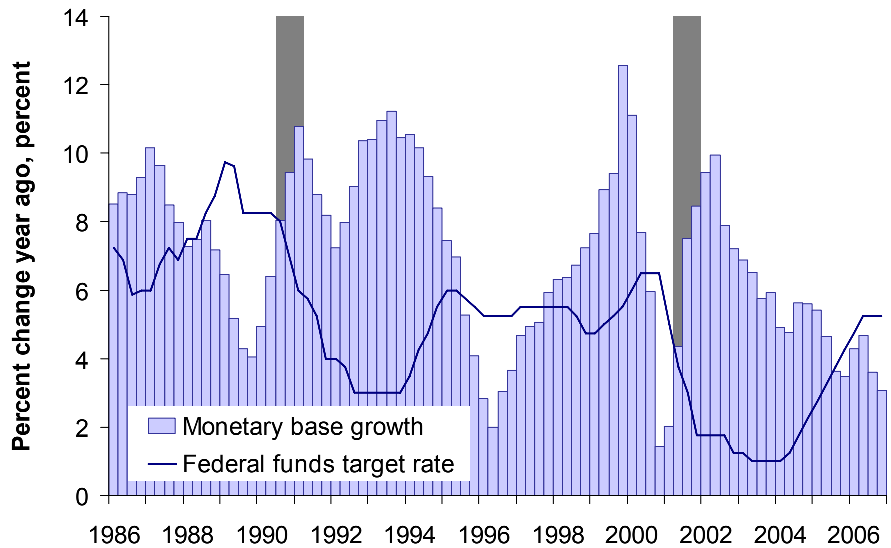
THE NATIONAL ECONOMY

The current slowdown represents a classic monetary tightening cycle. Since the early 1980s, the Federal Reserve has become more proactive in its effort to restrain inflationary expectations, preemptively slowing the economy before a self-fulfilling cycle of price increases emerges, as it did in 1994 and 1999. When the Federal Reserve deems it necessary to slow the economy, it targets a higher federal funds rate, the overnight rate at which banks borrow from each other. The central bank achieves its target by extracting reserves from the banking system through open market operations, resulting in a contraction of the monetary base. This reduction, in turn, decreases the degree of liquidity in the banking system, generally making it more difficult for households and businesses to obtain credit. If the Federal Reserve wants to ease the availability of credit, it reverses the process. The resulting inverse relationship between the Federal Reserve's federal funds target rate and monetary base growth is illustrated in Figure 2.

After keeping its federal funds target rate at 1.0 percent for about a year, the Federal Reserve raised its target 17 times in 25-basis-point increments over a two-year period. The economy's most interest rate sensitive sectors, housing and autos, may have been particularly vulnerable during this cycle. Suspicions had been mounting that the nation's housing sector was "frothing," if not in the midst of a full-fledged bubble. Indeed, a debate may be just beginning over whether the Federal Reserve kept its target interest rate too low for too long.[2] Low interest rates combined with a relatively weak equity market and a "glut" of global savings had investors searching for the highest possible returns. With an unusually high proportion of 2005 real estate activity accounted for by second homes and investment property, it is believed that the housing market absorbed a significant amount of these savings, pushing prices and construction activity up to unsustainable levels. The Budget Division projects that the current housing market correction will continue through the beginning of 2008.

[2] See Richard W. Fisher, "Confessions of a Data Dependent," Remarks before the New York Association for Business Economics, New York, Nov. 2, 2006, < http://dallasfed.org/news/speeches/fisher/2006/fs061102.cfm>.

Figure 2
The Federal Funds Target Rate and Monetary Base Growth



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

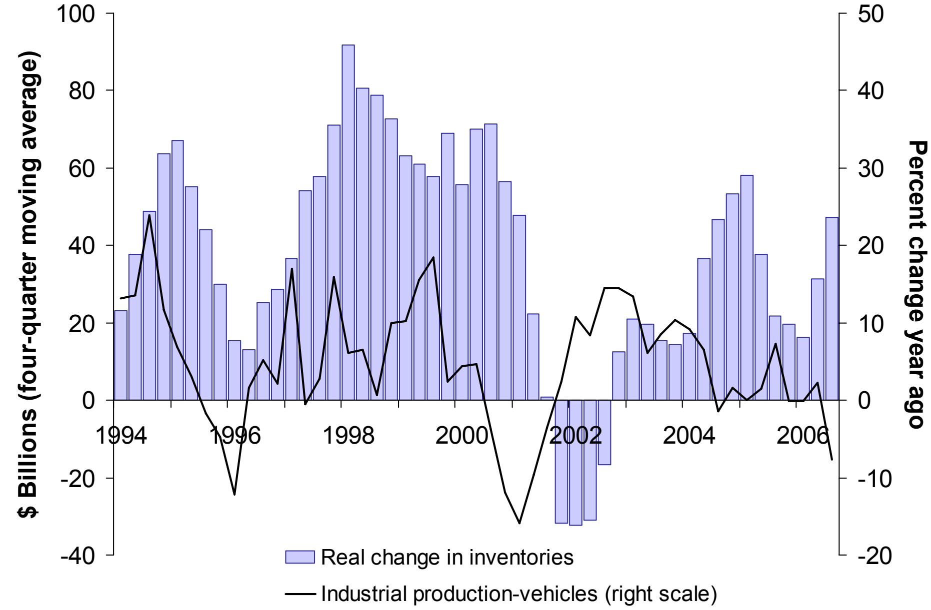
The U.S. auto industry has been in a prolonged period of restructuring, with consumers increasingly switching to foreign brands and health care and pension costs continuing to balloon. Over the last two years, rising energy prices and interest rates put additional pressures on domestic automakers, who have been heavily marketing highly profitable sport utility vehicles. Similar pressures have built in housing-related manufacturing industries and, as a result, an inventory overhang has developed. In response, auto and other types of production are expected to continue to ratchet down, and, as indicated in Figure 3, inventories can be expected to follow.

With the effects of the Federal Reserve's recent monetary tightening still being felt and the housing and manufacturing sector corrections still underway, the risk of a recession cannot be disregarded. And given that the precise length of the lag between interest rate changes and the full realization of the economy's response to those changes is uncertain, it is possible that the economy could weaken further than anticipated. Nevertheless, the Executive Budget forecast reflects the belief that the Federal Reserve has successfully managed another soft landing, much as it did in 1994-95.

Historical data indicate that the national economy must lose a considerable amount of momentum for a recession to ensue. Figure 4 shows that whenever the four-quarter moving average growth rate for real GDP falls below 2.0 percent, the economy is either in recession or heading for one. Growth so measured is expected to approach the 2.0 percent boundary in early 2007, but not quite breach it. Energy price declines, strong corporate balance sheets, trends in nonresidential construction, as well as healthy global growth are expected to compensate for weaknesses in other areas of the economy. However, one need look back no further than 2001 to be reminded that the economy can be extraordinarily vulnerable to external shocks when in the midst of a slowdown.

Figure 3

Inventory Cycle

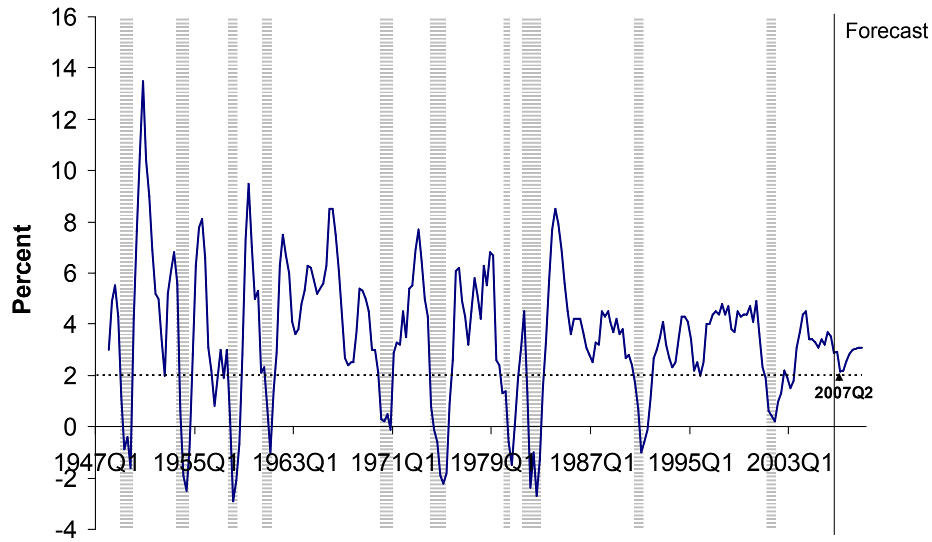


Source: Moody's Economy.com.

Figure 4

Real U.S. GDP Growth

Four-quarter moving average



Note: Shaded areas represent U.S. recessions.
Source: Macroeconomic Advisers; Moody's Economy.com; DOB staff estimates.

BOX 1
THE DETERMINATION OF
POTENTIAL GROSS DOMESTIC PRODUCT

Potential Gross Domestic Product (GDP) is the level of output that the economy can produce when all available resources are being utilized at their most efficient levels. The economy can produce both above and below this level, but when it does so for an extended period, economic agents can expect inflation to either rise or fall, although the precise timing of that movement depends on many factors.

Some knowledge of the economy's productive capacity is fundamental to the decision-making process for households, firms, and the monetary authority. Households partially base their expectations surrounding their lifetime accumulation of wealth upon their estimates of the output potential of the economy. Firms choose a profit-maximizing level of labor and capital based on their estimates of the economy's long-run productive potential. An estimate of potential GDP also enables these agents to form expectations regarding the direction which inflation will take in the future. Such expectations might induce the central bank to shift the course of monetary policy.

Measurement of potential GDP requires a formalization of the aggregate production process. Economists refer to this formalization as an aggregate production function, which stipulates that total output is related to the amount of resources that are applied to production. The precise nature of the production function depends upon which sector of the economy one is trying to model.

Following the Congressional Budget Office (CBO), DOB divides the economy into five sectors: nonfarm business, farm, government, nonfarm housing, and households and nonprofit institutions.[1] The nonfarm business sector is by far the largest sector of the economy, comprising 84.1 percent of total GDP during 2000. To model this sector, DOB again follows CBO and adopts a neoclassical growth model incorporating three inputs to the production process: labor as measured by the number of hours worked, capital stock, and total factor productivity.

Over the course of an economic expansion, we expect periods during which labor and capital are utilized in magnitudes that are above their most efficient levels. Similarly, during recessions, we expect periods when these inputs are underutilized. Therefore, we can adjust the inputs to the production process to their "potential" levels by removing the historical movements in these series that can be associated with the business cycle. To measure the total potential capital stock, DOB multiplies the U.S. Bureau of Economic Analysis' measure of the real capital stock by the capacity utilization rate, after removing the cyclical component of the latter series by using a methodology developed by CBO. To measure the potential level of the number of hours worked, we remove the cyclical component using the same methodology.

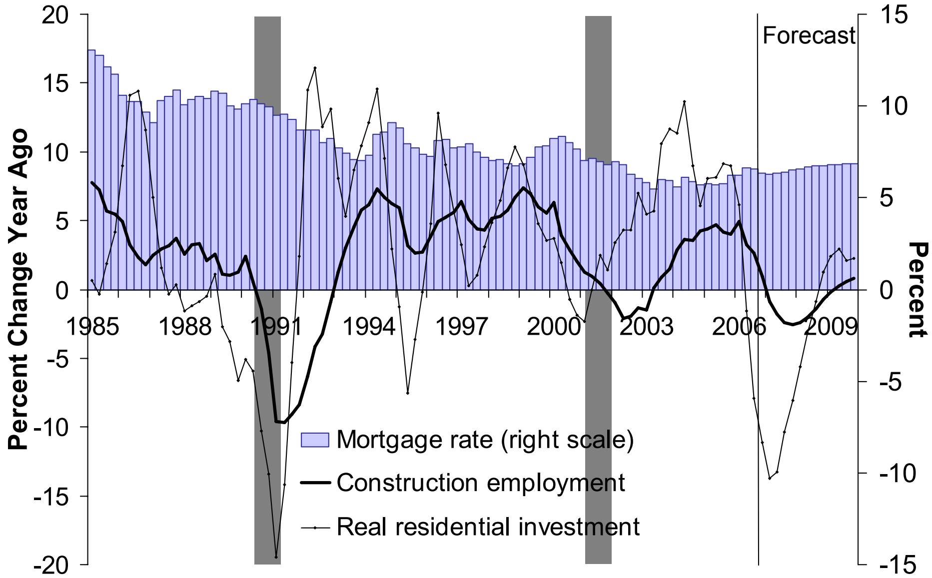
To estimate the potential level of total factor productivity, the actual values of labor and capital are substituted into a fixed-coefficient production function, where a coefficient of 0.7 is applied to labor and 0.3 is applied to capital. The residual obtained by subtracting the value of output obtained from this substitution from the historical value of output is assumed to represent total factor productivity. Removing the business cycle component from this residual yields its potential level. Substituting the potential levels of all of the inputs back into the fixed-coefficient production function, where total factor productivity is given a coefficient of one, yields a measure of potential nonfarm business GDP. For the other sectors of the economy, the cyclical component is removed directly from the series itself in accordance with the method used by CBO.

[1] See "CBO's Method for Estimating Potential Output," Congressional Budget Office, October 1995, and "CBO's Method for Estimating Potential Output: An Update," Congressional Budget Office, August 2001.

The Housing Bubble Bursts

As the housing market boom began to fade in late 2005, what had been an important growth engine during the early stages of the current expansion was quashed. The housing market had provided economic stimulus through several channels. First, the expansion in home building was a boon to the construction industry itself, as illustrated in Figure 5. Secondly, it served as an engine of job growth in the related real estate, rental and leasing sector. Another channel of stimulus was provided by the run-up in house prices, which induced home-owning households to spend more by making them feel wealthier — the "wealth effect." Finally, manufacture of furniture, appliances, and other home furnishings was stimulated by both new purchasers of houses, who now needed to furnish them, and by the aforementioned wealth effect, as homeowners were able to tap the increased equity in their homes in order to finance improvements.

Figure 5
Real Residential Investment and Related Employment

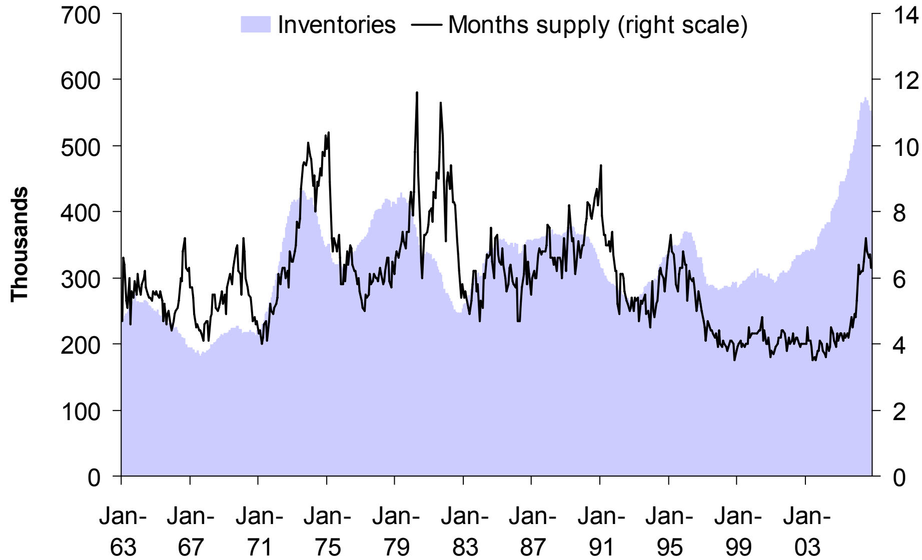


Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

But the positive effects of the housing boom would begin to reverse themselves as the boom itself faded. As Figure 6 indicates, the boom contributed to an unprecedented rise in home inventories.[3] Over the 2001-2005 period, housing starts averaged 1.84 million per year, compared to an estimated rate of annual household formation of just 1.37 million.[4] More evidence of the extent of the overhang is supplied by the number of months it will take to sell the current inventory of homes, which is also high, though below its historical peak. Given the large volume of sales transactions involving second homes and investment property in the recent boom, there is an indication that the current inventory is not supported by fundamentals, such as income, interest rates and the rate of household formation, that drive the housing market over the long run. Thus some of the recent housing market activity was likely speculative. As a result of the inventory overhang, median prices of existing homes sold in the third quarter of 2006 actually fell, though not universally, as indicated in Figure 7. Thus the Budget Division projects real residential fixed investment to fall 11.5 percent in 2007, following a decline of 3.8 percent in 2006.

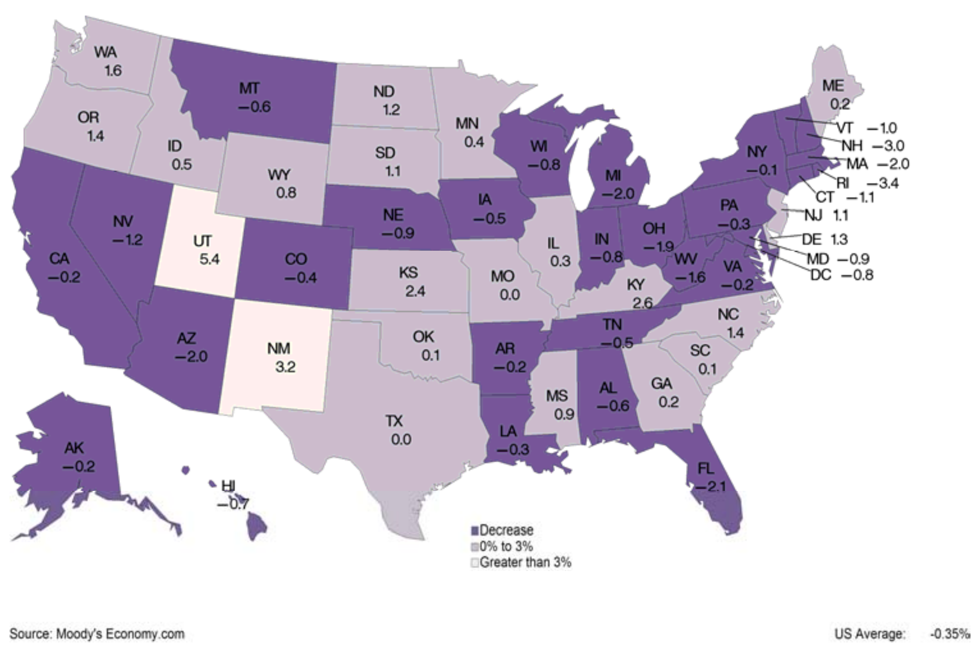
[3] Since the home inventory data does not include homes put back on the market due to a contract cancellation, the inventory data may understate the true number of unsold homes.
[4] See The Joint Center for Housing Studies, "The State of the Nation's Housing, Demographic Drivers" <http://www.jchs.harvard.edu/publications/markets/son2006/son2006_demographic_drivers_bw.pdf>.

Figure 6
Inventory of New Homes for Sale



Source: Moody's Economy.com.

Figure 7
Quarterly Change in Median Existing Single Family Home Prices
2006Q3

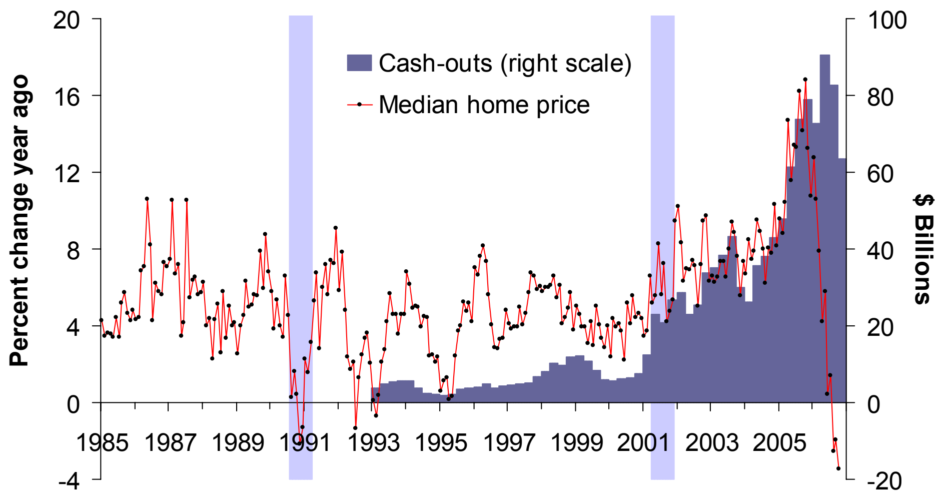


The current housing bust has been associated with a drop in the rate of construction employment growth that is expected to turn into an outright decline during the forecast period. The downturn also affected job growth in the real estate, rental and leasing sector, where employment grew less than 1.0 percent in the third quarter of 2006 and actually fell 0.1 percent in the fourth quarter. In contrast, job growth in that sector had averaged 2.3 percent from 2004Q1 through 2006Q2. Still, the projected decline in housing-related employment appears mild relative to the impact of the real estate market collapse of the late 1980s and early 1990s. This is because the current bust appears largely restricted to the residential housing market, while nonresidential construction has been relatively strong. The prior slump had engulfed the entire real estate market.

As discussed, the rising house prices that accompanied the boom increased equity values for existing homeowners. Figure 8 shows that home-equity withdrawals have tracked rising house prices, though with a lag. Recent declines in median home prices are therefore expected to be associated with a future drop in the rate of equity withdrawal, and this has begun to occur. Although Figure 9 indicates that 2006 is estimated to have been a record year for mortgage equity withdrawals, Freddie Mac estimates that withdrawals for the fourth quarter will be 18.4 percent below the average for the prior three years.[5] Freddie Mac projects that withdrawals will fall by about one-third in 2007, and by yet another third in 2008.[6]

Figure 8

Sales Price of Existing Single Family Homes vs. Home Equity Cashed-out

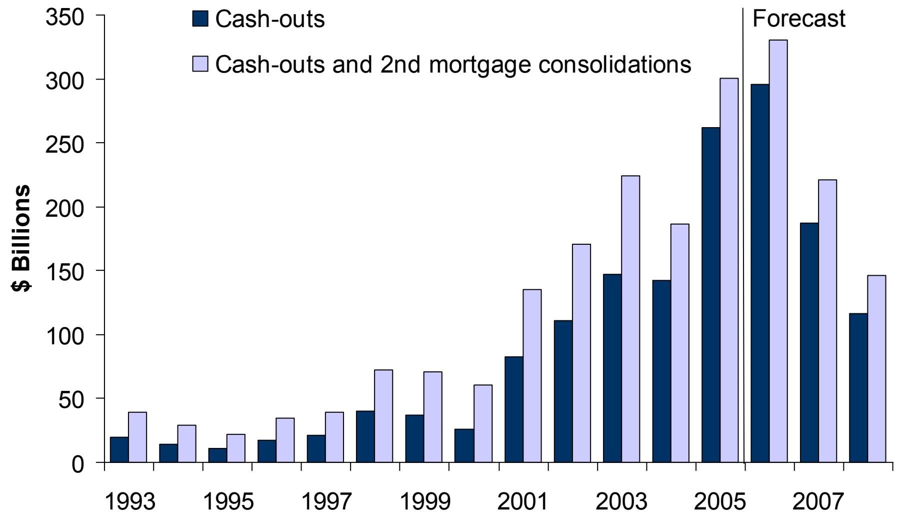


Note: Shaded areas represent U.S. recessions.
Cash-out figures for 2006 are Freddie Mac estimates.
Source: Moody's Economy.com; Freddie Mac.

[5] See <http://www.freddiemac.com/news/finance/refi_archives.htm>.

[6] Mortgage refinancing is not the only source of equity extraction. Greenspan and Kennedy (2005) provide a more comprehensive estimate of equity extraction for 2004 of $350 billion, compared with an estimate of $186 billion based on Freddie Mac-owned loans. If Freddie Mac's current estimate of $331 billion for 2006, which is based on the first three quarters of data, is expanded by the 2004 ratio between the two estimates, more comprehensive projections for 2006 and 2007 become $622 billion and $415 billion, respectively, implying a decline of $207 billion. See Alan Greenspan and James Kennedy, "Estimates of Home Mortgage Originations, Repayments, and Debt on One-to-Four-Family Residences," The Federal Reserve Board *Finance and Economics Discussion Series*, 2005-41.

Figure 9
Home Equity Cash-Out Volume



Note: Data for 2006 are estimates based on three quarters of preliminary data; 2006Q4, 2007, and 2008 are projected by Freddie Mac.
Source: Freddie Mac.

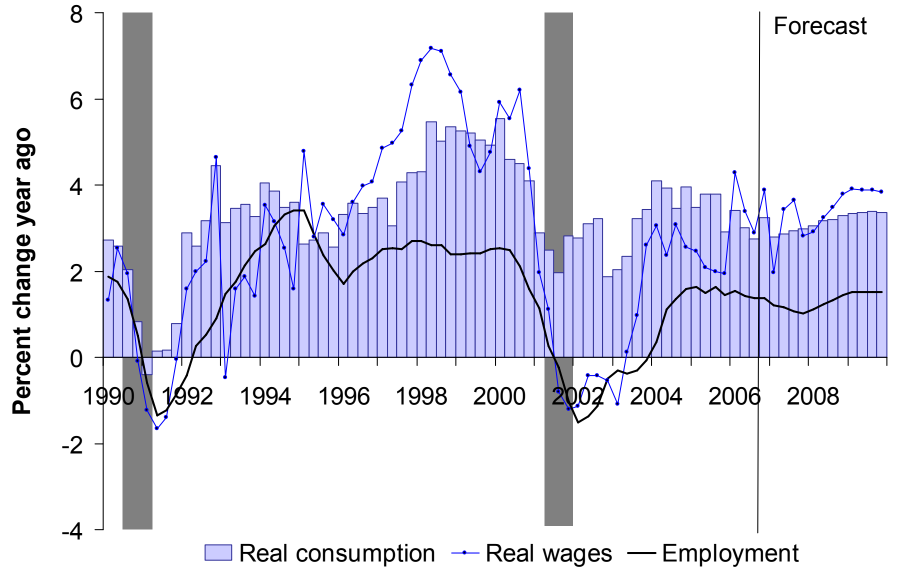
What percentage of mortgage equity withdrawals translates into consumption spending is uncertain. However, it is believed that a significant amount of these withdrawals have supported the recent strong growth in goods and services associated with home improvement, like furniture, appliances, etc. A recent study estimates that about half of the value of equity extraction is used to finance consumption expenditures, implying that should withdrawals decline by $110 billion this year, a drag of 0.7 percent on total consumption growth will occur.[7] A Budget Division analysis finds these results to be highly sensitive not only to the model specification, but also to which components of spending are assumed to be affected. Thus, the anticipated decline in mortgage equity withdrawals remains a significant risk to the economic forecast for 2007 and 2008.

Household Spending Remains Steadfast

Household spending is the anchor of the U.S. economy. While the downturn in the housing market poses a major risk to real consumption spending, the fundamentals underlying household sector spending are sound. Employment and wage growth have slowed since the first quarter of 2006 but otherwise remain solid (see Figure 10). The Budget Division projects consumption spending growth of 2.9 percent for 2007, following growth of 3.1 percent for 2006. Spending on nondurable goods and services, which is less cyclical, is projected to grow 2.9 percent for 2007, roughly the same as in 2006. The more volatile durable goods component is expected to grow only 2.6 percent for 2007, following 4.8 percent growth for 2006.

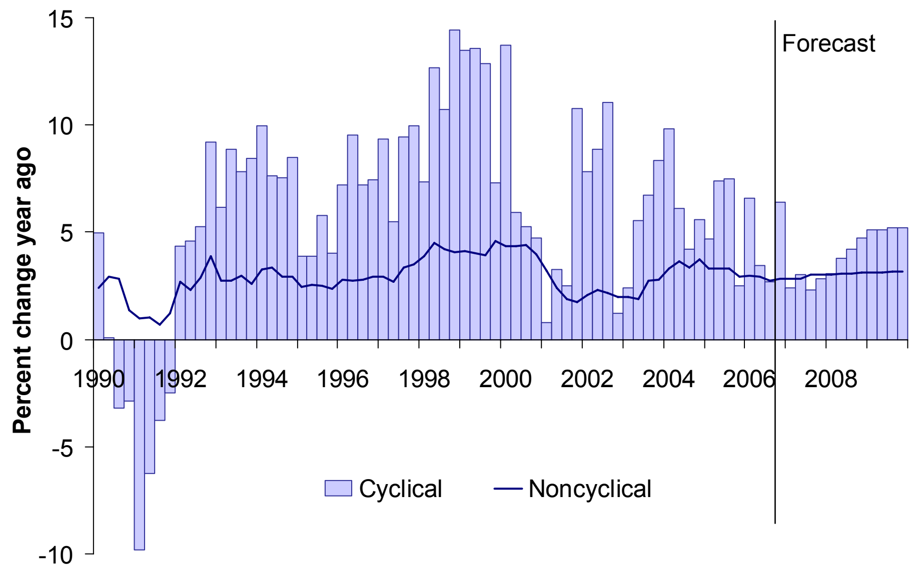
[7] See, for example, Alan Greenspan (2005), "Mortgage Banking," The Federal Reserve Board, remarks to the American Bankers Association Annual Convention, Palm Desert, California, September 26.

Figure 10
Real Consumption, Real Wages, and Employment



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

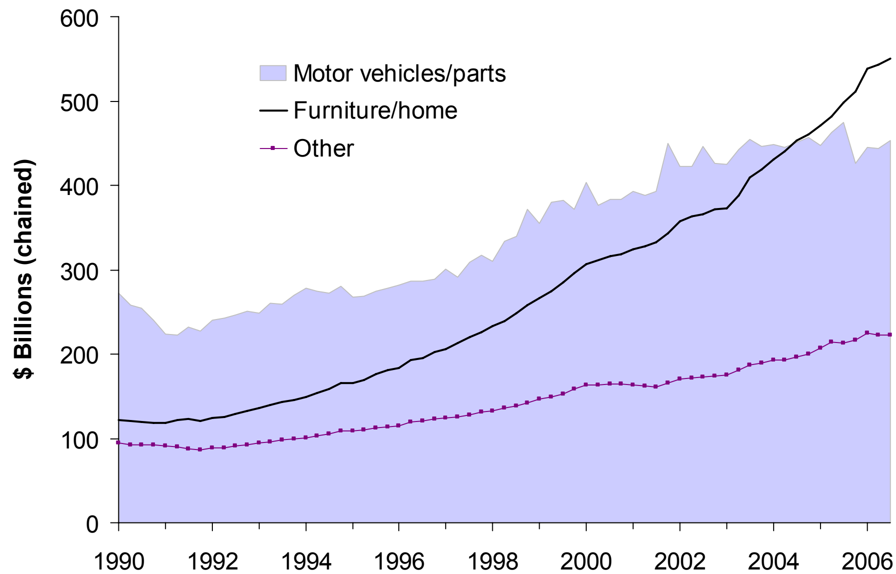
Figure 11
Cyclical and Noncyclical Consumption Growth



Source: Moody's Economy.com; DOB staff estimates.

Real consumption growth started to slow considerably in the fourth quarter of 2005. From 2005Q4 through 2006Q3, year-over-year growth in total real consumption averaged 3.0 percent, following average growth of 3.7 percent from 2003Q3 through 2005Q3. As indicated in Figure 11, the larger part of that decline occurred in the more interest-rate sensitive durable component, with average growth falling from 6.7 percent to 3.8 percent between the two periods. In contrast, average growth in the less cyclical services and nondurable goods component fell by much less, from 3.3 percent to 2.9 percent. As indicated in Figure 12, the brunt of the slowdown in cyclical consumption was felt in spending on motor vehicles and parts.

Figure 12
Durable Goods Consumption by Type



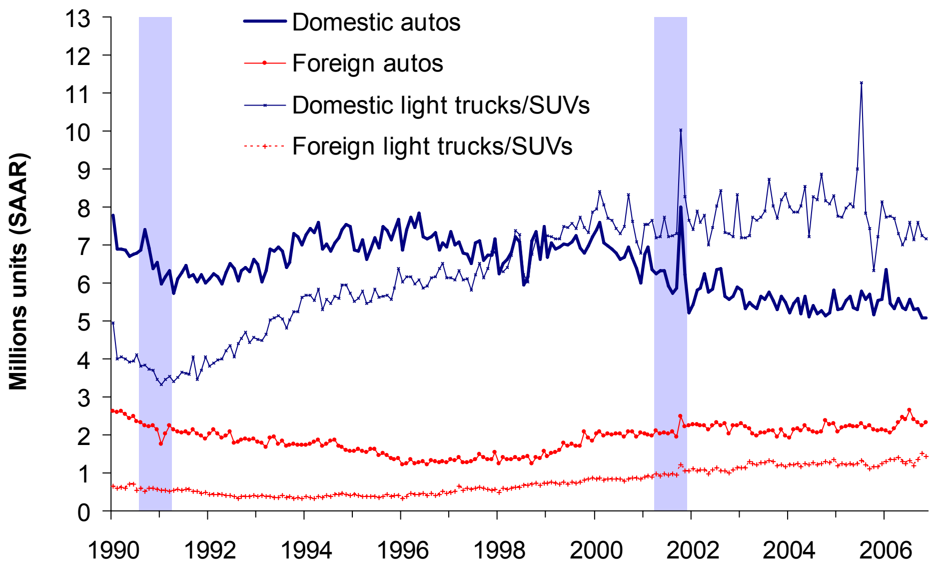
Source: Moody's Economy.com.

Developments in both the auto and housing markets pose risks to household spending going forward. Figure 13 illustrates how the U.S. consumer's preferences over vehicle type have changed over time. Two trends stand out: the substitution of imports for domestically produced vehicles, and the substitution of light trucks, which includes SUVs, for autos. The impact of the first trend on domestic auto production has clearly been negative. While the second trend has been generally positive for the domestic producers of light trucks, the recent increases in energy prices have significantly hurt demand. Given the multitude of choices that households currently face when choosing a vehicle, consumers appear to be responding more quickly to price changes than during the first energy shocks of the 1970s. Should gasoline prices rise higher than currently anticipated, households could respond by moving toward lighter, less expensive vehicles or by reducing the number of vehicles purchased, resulting in lower durable consumption than projected.

Though real estate will be less of a support for consumption spending going forward, there is evidence that the recent growth in financial wealth will compensate for this loss, at least in part. Recent data indicate that for the third quarter of 2006, the household and nonprofit sector reported a net worth of $54.1 trillion, an increase of 43.6 percent since the same quarter of 2002. Approximately 40 percent of this increase is estimated to have come from real estate and 60 percent from financial assets. Figure 14 indicates that household net worth, to which financial assets are the largest contributor, continues to grow, though the rate of growth has been stagnant since early 2005. On the other hand, recent increases in real estate wealth have been associated with negative rates of savings as rising home values have freed households to spend more out of current income. Should home values fall sufficiently, consumers could feel compelled to save more, representing a risk to the consumption spending forecast.

Figure 13

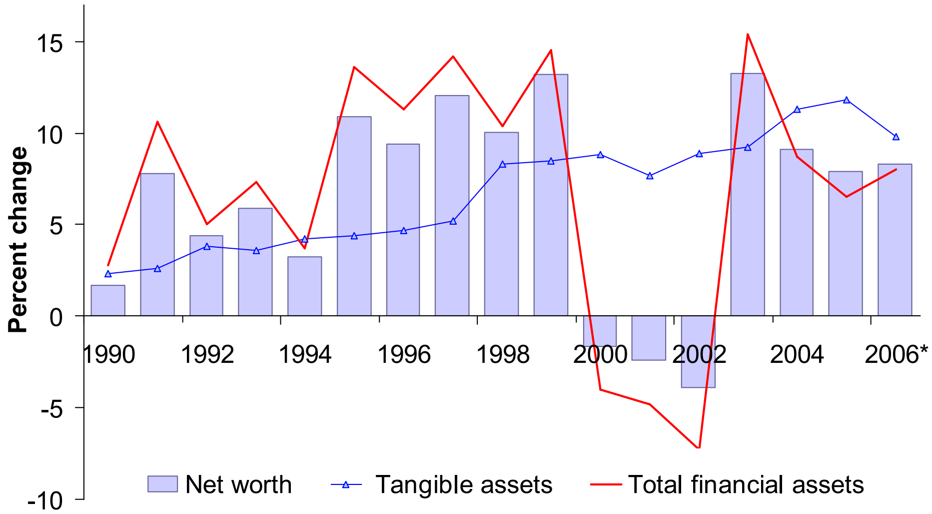
Light Vehicle Sales



Note: Data are seasonally adjusted annual rates; shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Figure 14

Growth in Tangible vs Financial Assets and the Net Worth of Households and Nonprofits



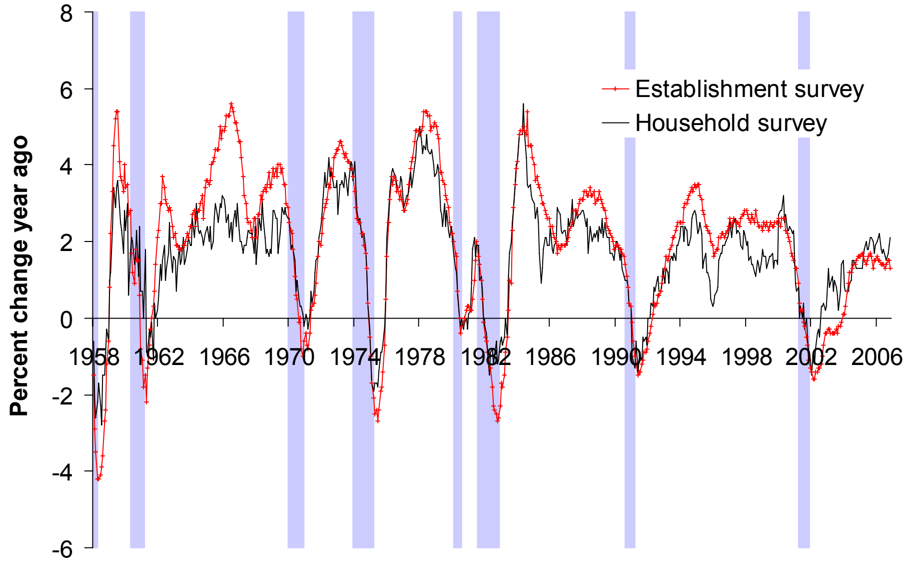
*Based on the growth rate of first three quarters over the same period of prior year.
Source: Moody's Economy.com.

Labor Market Growth Remains Slow But Steady

While the nation's labor market has been creating new jobs since the late summer of 2003, how robustly depends on which source of data one turns to for guidance (see Figure 15). Establishment survey data showed average monthly gains in payroll employment for 2006 of about 153,000 jobs, compared to 165,000 for 2005 and 175,000 for 2004.[8] This pattern shows the economy slowing in 2006, consistent with national income and product account (NIPA) data on output. However, the household survey conveys a very different picture: employment gained an average of about 262,000 jobs per month in 2006, an increase from 219,000 in 2005 and 144,000 in 2004.

[8] The labor market was likely stronger in early 2006 than currently published data suggest. The U.S. Bureau of Labor Statistics announced in October that, with the release of January 2007 data on February 2nd, employment for March 2006 will be revised up by 810,000, or 0.6 percent. The upcoming revision is far greater than the approximately 0.08 percent average for the last ten years. For more information on the 2006 Benchmark revision, see <http://www.bls.gov/ces/cesprelbmk.htm>.

Figure 15
Establishment vs. Household Survey Employment



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

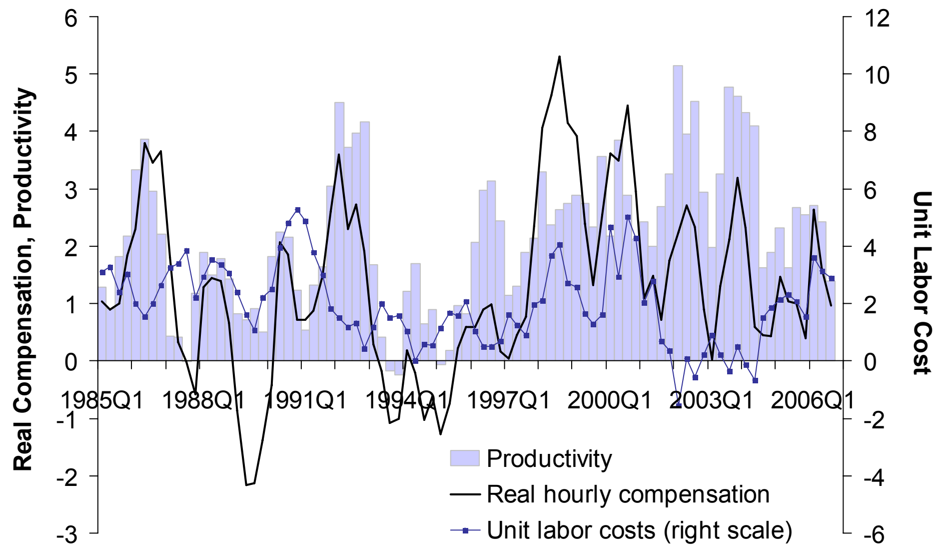
The Budget Division employment forecast for the nation is based on establishment survey data. Consistent with the slowdown in real U.S. GDP for this year, national employment is projected to rise 1.1 percent for 2007, following growth of 1.4 percent in 2006. The Budget Division's 2007 forecast translates into an average monthly gain of about 115,000 jobs. This forecast implies a slower pace of job growth relative to 2006, one that is below what is necessary to absorb the number of monthly entrants into the labor force. Consequently, the unemployment rate is projected to rise to 4.9 percent for 2007, following a rate of 4.7 percent for 2006. Correspondingly, the Budget Division projects wage growth to moderate to 5.1 percent for 2007, following growth of 6.5 percent for 2006, with personal income, of which wages is the largest component, growing 5.5 percent for 2007, following growth of 6.4 percent in 2006.

Labor force data based on the household survey indicate a tight labor market, with an unemployment rate of 4.5 percent as of December 2006. Given the labor market's recent healthy growth, the question arises as to whether wage increases due to tight labor markets will generate inflationary pressures going forward. Three factors are likely to restrain the impact of a tight labor market on prices. The first is productivity growth. Figure 16 indicates that as long as productivity growth is high, real hourly compensation costs can rise without putting much upward pressure on unit labor costs. The Budget Division projects that productivity growth will accelerate as output growth rises to its long-term trend growth rate.[9]

[9] For a more complete discussion of the relationship between the high rates of productivity growth and the low rates of job growth that characterized the early phase of the current expansion, see New York State Division of the Budget, *2005-06 New York State Executive Budget — Financial Plan*, pp. 187-193.

A second factor that may cushion the threat to inflation from rising wage costs is the exceptionally strong growth in U.S. corporate profits since the beginning of 2003. Strong profit growth in the absence of significant wage growth has resulted in a reduction in labor's share of total national income (see Figure 17). The corporate sector's strengthened balance sheet should enable the business sector to absorb an increase in labor costs without necessarily having to pass those higher costs on to consumers.

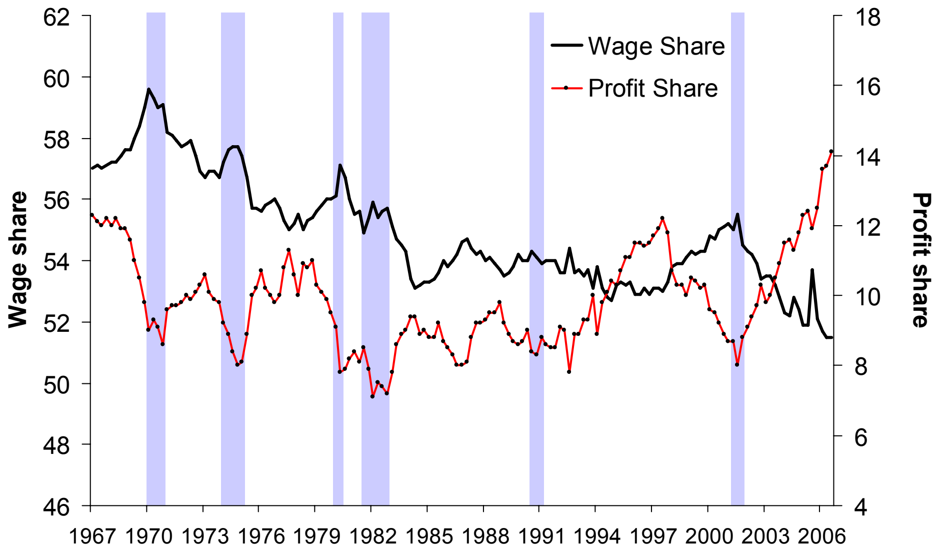
Figure 16
Nonfarm Business Productivity and Labor Costs
Percent change year ago



Source: Moody's Economy.com.

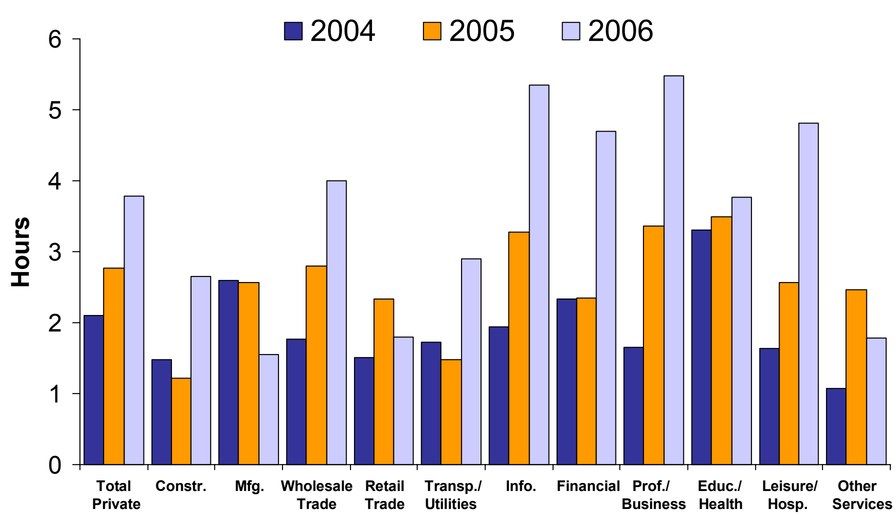
A third factor that may cushion consumer prices against higher wage costs is global competition. Figure 18 indicates that while average hourly earnings for nonsupervisory workers have certainly risen within many industrial sectors, they have actually fallen in three sectors. These sectors — manufacturing, retail trade, and "other" services — together accounted for over 30 percent of all private sector workers, including supervisory, in 2006. As demonstrated below, these differences correspond roughly to those of industries that are most vulnerable to competition from imports or to outsourcing to lower wage areas.

Figure 17
Wage and Profit Shares of National Income



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

Figure 18
Private Sector Average Hourly Earnings



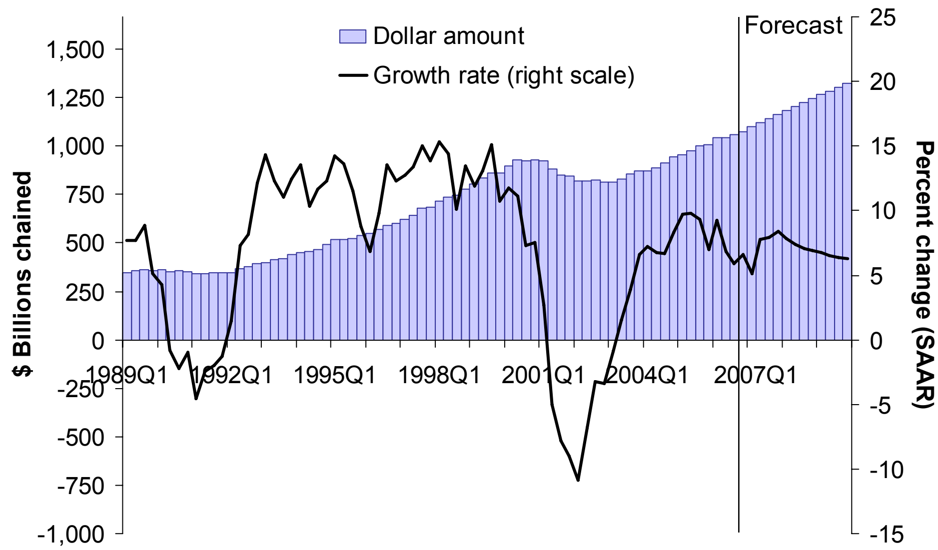
Source: Moody's Economy.com.

Business Investment Will Remain Steady

Business fixed investment — spending by businesses on offices, factories, equipment, and software — is a relatively small share of GDP, accounting for about 11 percent of the total, but historically has been quite volatile. As a consequence, it has had a disproportionate impact on changes in GDP. The business sector's rapid rate of investment in capital equipment and software led the long economic expansion of the 1990s, while its subsequent unwinding factored significantly into the persistent weakness that followed the relatively shallow 2001 recession (see Figure 19). Indeed, it was not until the fourth quarter of 2005 that the level of business investment recovered to its prior 2000Q4 peak. As a result, investment fell as a share of total GDP from a peak of 12.7 percent in the third quarter of 2000 to a low of 9.7 percent in the first quarter of 2004, but has steadily climbed since, standing at 10.7 percent in the third quarter of 2006. The Budget Division projects investment to continue to grow steadily through the forecast period, albeit at a slower pace, consistent with the slowdown in the overall economy. Real nonresidential business fixed investment is projected to grow 7.1 percent for 2007, following growth of 7.8 percent for 2006.

Figure 19

Real Nonresidential Fixed Investment in Equipment and Software



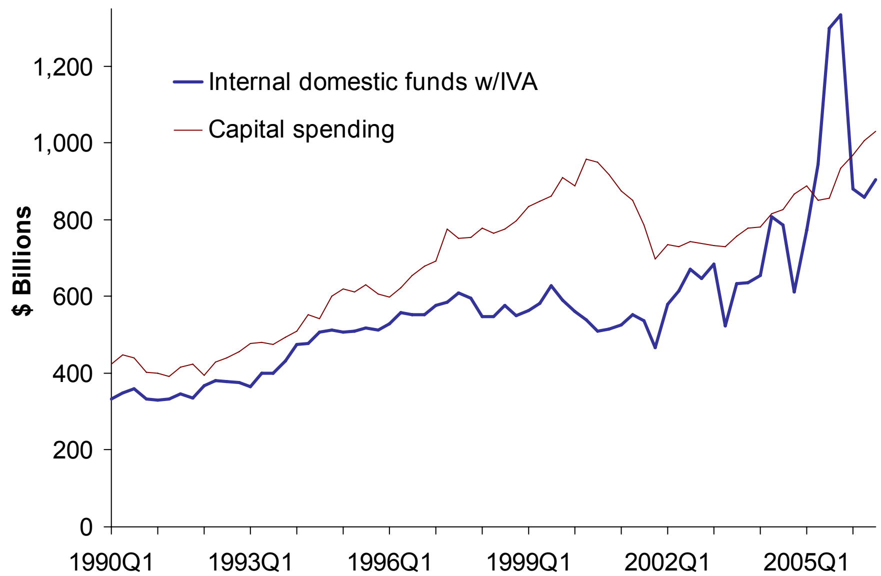
Source: Moody's Economy.com; DOB staff estimates.

The downturns in the housing and manufacturing sectors are expected to negatively impact business investment going forward. For a given set of current and expected future input and output prices, profit maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment.[10] Since weaker growth in 2007 implies weaker sales, the

[10] Optimal investment is the level that maintains the profit maximizing or cost minimizing capital-output ratio. With a Cobb-Douglas production function, the optimal capital-output ratio will be equal to the ratio of the price of output to the rental rate of capital. This condition implies that the optimal growth rate of investment varies with output growth and changes in the rental rate of capital relative to output price.

incentive to expand and invest can be expected to diminish. At the same time, a number of countervailing forces may limit the impact of the current slowdown on investment growth. Strong corporate profits relative to investment growth since the end of the 2001 recession have bolstered corporate balance sheets. The result has been a relatively narrow gap between domestic internal funds available for investment and actual capital expenditures made by nonfinancial corporations, as indicated in Figure 20.[11]

Figure 20
Finance Gap for Nonfinancial Corporations



Source: Moody's Economy.com.

A reduction in the cost of acquiring and using capital goods, commonly referred to as the user cost of capital, also induces firms to increase investment spending. Factors that reduce the user cost include a decrease in the prices of new investment goods, declines in inflation-adjusted borrowing costs, rising equity prices, and changes in the tax code that favor investment. Despite the recent completion of a cycle of monetary tightening, declines in both the term and risk premiums have resulted in real long-term corporate bond rates that are low from a historical standpoint. Low real interest rates are likely to have factored into the recent strong growth in business spending on plant and other nonresidential structures (see Figure 21).

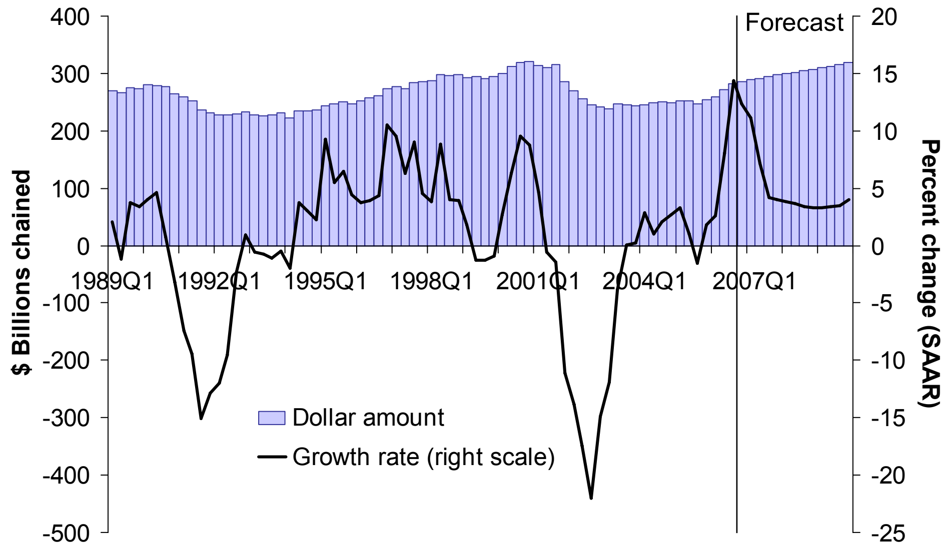
The Budget Division forecast for nonresidential investment is not without risk. There is evidence that U.S. firms continue to buy back shares of their own stock from the public, while other firms are increasing their direct investments abroad, building offices and plants and buying equipment for facilities in foreign countries. U.S. Bureau of Economic Analysis data on foreign direct investment indicate that capital inflows to the U.S. increased 112.6

[11] Part of the spike in internal funds during the last two quarters of 2005 is due to a one-time change in U.S. tax law that expired at the end of that year. Under the law, companies were allowed to transfer profit from overseas operations back to the U.S. and pay a special low tax rate of 5.25 percent (versus a normal effective rate close to 25 percent for many U.S. firms).

percent between 1994 and 2004, while outflows increased 213.0 percent. There is also evidence that firms have used their internal funds to spur a wave of mergers and acquisitions (M&A) that appears to have made 2006 one of the strongest on record for M&A activity. Funds used for these purposes leave less available for business fixed investment.

Figure 21

Real Nonresidential Fixed Investment in Structures



Source: Moody's Economy.com; DOB staff estimates.

Monetary Policy and Inflation

The Federal Reserve's resolve to keep inflationary expectations in check was put to the test in 2006, with headline inflation, as measured by the growth in the Consumer Price Index (CPI), averaging 3.2 percent for all of 2006, following 3.4 percent inflation for 2005. In the meantime, core inflation, which measures price changes without the volatile food and energy components, rose 2.5 percent for all of 2006, after increasing 2.2 percent in 2005. However, the current economic slowdown and the recent receding of energy prices have reduced a substantial portion of the price pressures observed during most of 2006 (see Figure 22). The Budget Division projects a decline in the overall rate of inflation to 2.3 percent for 2007.

Recent rates of core inflation have largely been driven by two opposing forces: energy import prices and the power of producers to pass their own rising energy costs onto their customers, versus the impact of global competition on the prices of non-energy goods. A Budget Division analysis indicates that increases in energy prices eventually do pass through to the prices of other goods and services, after controlling for the effects of the business cycle, productivity growth, non-oil import prices, and inflation expectations, though gradually and over a long period. The acceleration of core inflation in 2006 is consistent with this analysis (see Box 2).

BOX 2
THE PASS-THROUGH OF ENERGY PRICE SHOCKS TO CORE INFLATION

The precise impact of energy price shocks on the U.S. economy has been controversial and the subject of much research. That impact is thought to depend largely upon the extent to which changes in energy costs pass through to core inflation, i.e., the change in prices excluding the volatile food and energy components. To measure the impact of energy prices on core inflation, we must control for all of the other factors that affect core inflation. For example, near the peak of the business cycle, when markets are tight, it should be easier for firms to pass along higher costs to consumers than during a slowdown. Similarly, with employment and wages growing, consumers should be willing to pay more as well. Thus, when the unemployment rate is above the so-called non-accelerating inflation rate of unemployment, or NAIRU, core inflation should be lower. Alternatively, when the prices of the imported goods that domestic non-energy producers must compete against grow at a faster rate than core inflation, core inflation can be expected to accelerate. In addition, when productivity growth is high, firms can absorb higher costs without sacrificing profits, removing the necessity of raising output prices and risking loss of market share. In contrast, if firms expect high future inflation, they may feel more comfortable raising prices today without risking market share, since with wages presumably growing with expected future inflation, consumers are willing to pay those higher prices. The results of a statistical analysis that includes all of these factors appear below:

$$INF_t^C = \underset{(0.64)}{2.39} - \underset{(0.11)}{0.65}\,(U_t - U_t^{NAIRU}) + \underset{(0.02)}{0.07}\,(INF_{t-1}^{IM} - INF_{t-1}^{C}) - 0.65\,PDL(12,2,PROD_t)$$

$$+0.22\;PDL(24,2,INF_t^E - INF_t^C) - 0.14\;PDL(24,2,INF_t^E - INF_t^C)D1980Q2$$

$$+\underset{(0.07)}{0.32}\;INF_{t-1}^C + \underset{(0.16)}{0.55}\;\hat{INF}_{t+4}$$

$\overline{R}^2 = 0.83$ DW=2.00 $\quad 1957Q2 - 2005Q3$

INF_t^C = Core CPI inflation

U_t = Unemployment rate

INF_{t-1}^{IM} = Non-oil import price inflation

$PROD_t$ = Nonfarm business productivy growth

INF_t^E = Energy CPI inflation

$\hat{INF}$ = Expected annual inflation, one year ahead

PDL(l,d,var) = Polynomial distrubuted lag (l = number of lags; d = degree of polynomial)

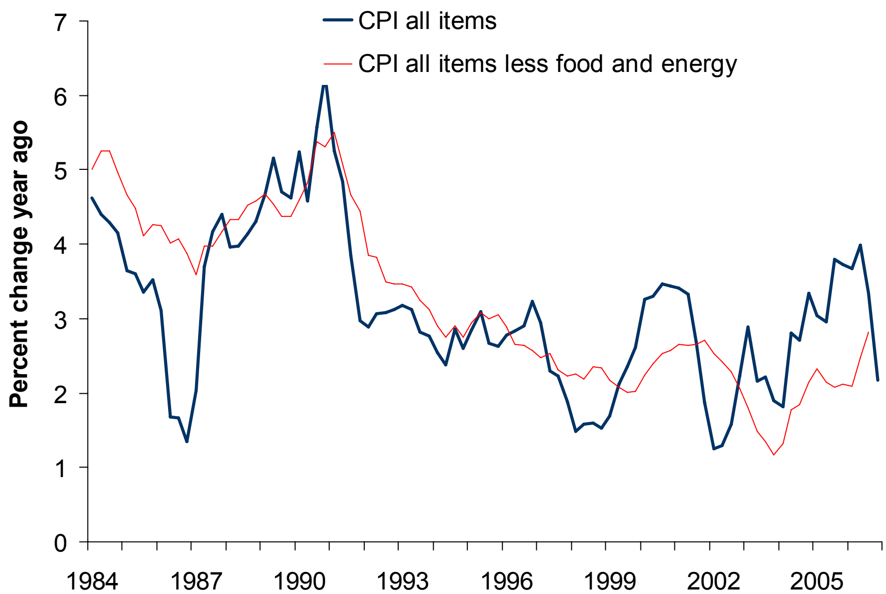
$D1980Q2$ = Break dummy {= 1 for period ≥ 1980Q2; 0 otherwise}

Note: All inflation and growth rates are annualized from prior quarter; standard errors are in parentheses for all coefficients except for the sums of the distributed lag terms.

The model results presented above are based on data from 1957Q2 through 2005Q3 and indicate that for the period since 1980Q1, if energy inflation rises above core inflation, an average of 8 percent of the difference eventually passes through to the core inflation rate. Model results also indicate that the extent of the pass-through has changed over time. Based on a test for structural change, the impact of energy prices on core inflation is found to have dropped about 64 percent between the period from 1957Q2 to 1980Q1 and the subsequent period. This finding is consistent with the prevailing belief that the economy has become more energy efficient since the oil shocks of the 1970s. Comparing the model predictions for the period from 2005Q4 through 2006Q3 with the actual values for annualized quarterly core inflation growth produces an average quarterly error of 0.05 percentage points. Thus, the pass-through of increases in energy prices to core inflation remains alive and well, though weaker than in the past.

Figure 22

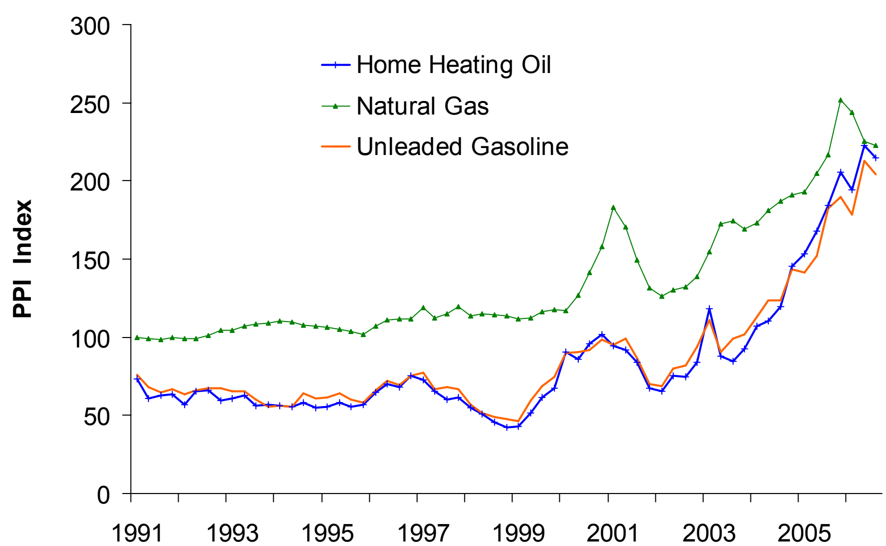
General vs. Core Inflation



Source: Moody's Economy.com.

Figure 23

Recent Trends in Energy Prices

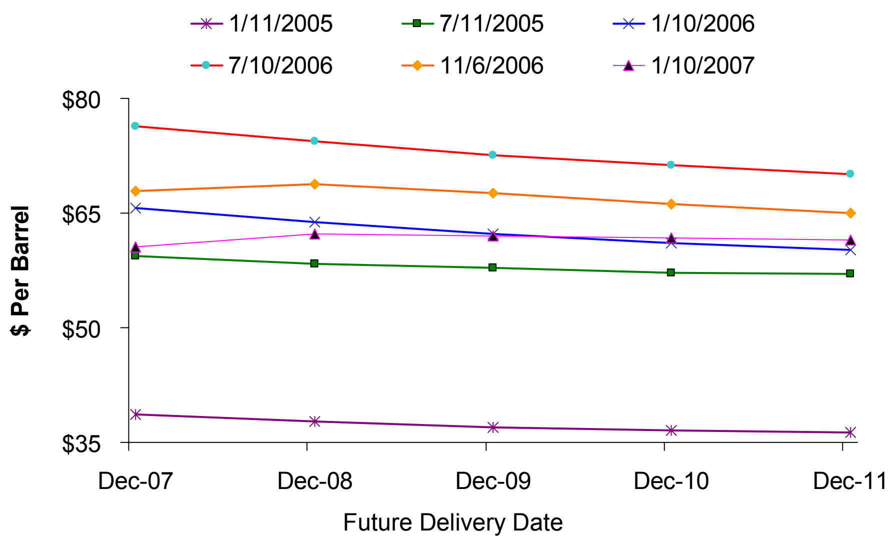


Source: Moody's Economy.com.

In late summer 2006, energy prices seemed to hit a wall and reversed course, reinforced by an exceptionally warm start to the winter season in the Northeast (see Figure 23). The recent volatility in oil prices is easily observed in the behavior of futures prices, which are depicted in Figure 24. For example, between July 10, 2006, and January 10, 2007, the price of a barrel of oil to be delivered in December 2007 fell from $76.29 to $60.54. The size of recent price fluctuations also shows the large degree of uncertainty surrounding any energy price forecast. The current lull in crude oil prices is presumed to be due in part to the slowdown in the U.S. economy, which represents a large portion of total world demand for energy. However, with otherwise strong global growth, and the U.S. economy expected to pick up steam by the second quarter of 2007, the Budget Division projects oil prices, as represented by the refiners' acquisition cost, to gradually rise over the course of 2007.

Figure 24

West Texas Intermediate Crude Oil Future Prices at Different Points in Time



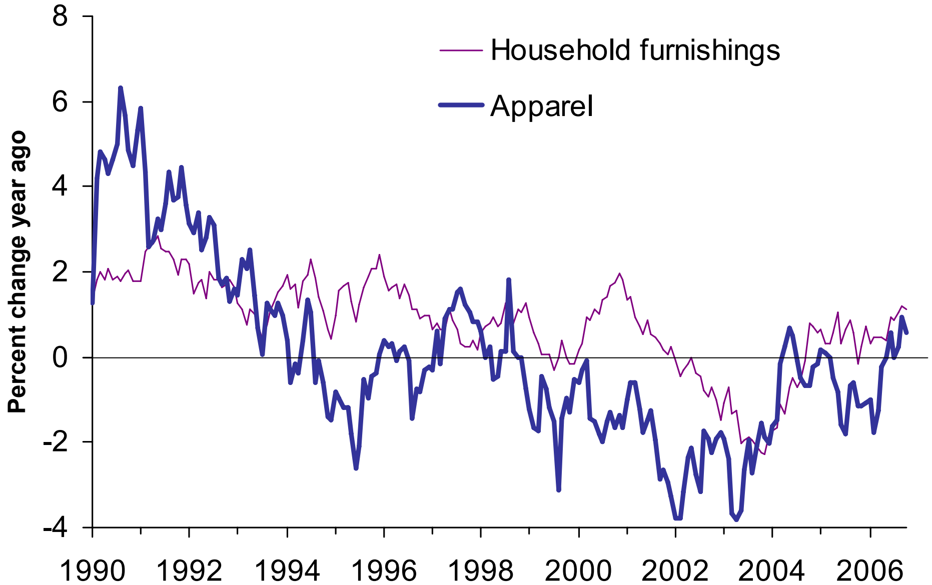
Source: Bloomberg.

The results of the Budget Division's analysis of the determinants of core inflation and the recent decline in energy prices suggest that non-energy inflation can be expected to recede in 2007, with the impact of global competitive pressures on inflation becoming more important. As indicated in Figure 25, industries that face relatively intense foreign competition for market share have seen very little price inflation since the mid-1990s, and, in the case of apparel, persistent price deflation until the pass-through of rising transportation costs began to have an impact in 2006. This experience contrasts significantly with industries that face primarily domestic competition only (see Figure 26). The largest increases for 2006 are observed in the energy-dependent transportation sector, which can be expected to show the largest decreases going forward. In contrast, those sectors where transportation costs carry a relatively low weight, such as education and medical care, should see relatively little change heading into 2007.

Due to the combined effects of rising energy prices, the housing bubble, and a more synchronized global business cycle, the Federal Reserve's task of maintaining price stability was perhaps more of a challenge in 2005 and 2006 than during the entire prior decade. Although energy prices are not expected to return to their 2006 peaks, the recent accelerated depreciation of the dollar increases the risk of higher inflation. The large U.S. trade and federal budget deficits increase the dollar's vulnerability to depreciation, making the Federal Reserve's goal of price stability that much harder to achieve.

Figure 25

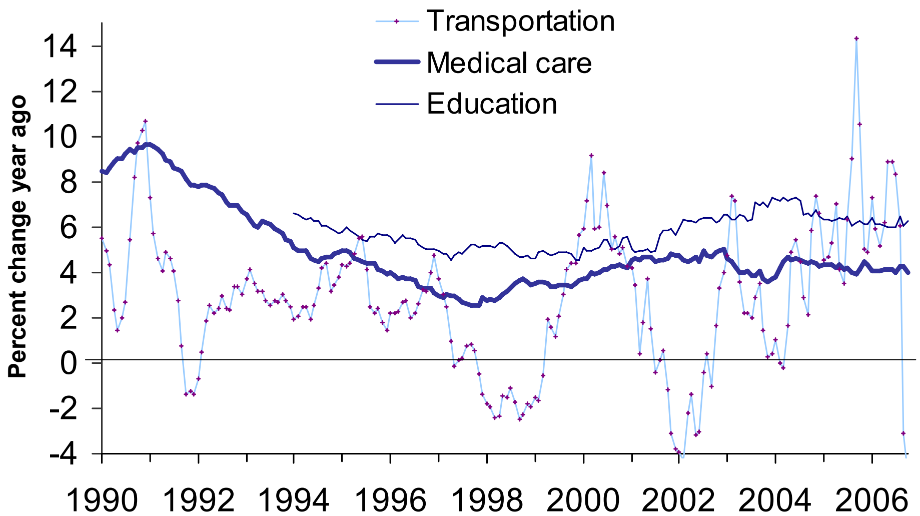
Consumer Prices for Goods Facing Foreign Competition



Source: Moody's Economy.com.

Figure 26

Consumer Prices for Goods Facing Little Foreign Competition



Note: The data for the education component of the CPI begin in 1994.
Source: Moody's Economy.com.

It is the assessment of the Budget Division that the current economic slowdown and declining energy prices will relieve a sufficient amount of price pressure to permit the Federal Reserve to hold its federal funds rate target constant at its current 5.25 percent rate through the end of 2008. The Budget Division uses a modified version of Taylor's monetary rule as a guide to forecasting changes in the Federal Reserve Board's federal funds policy target. Taylor's rule is a federal funds rate reaction function that responds to both the deviation of inflation from its target level and the deviation of output growth from its potential level. We assume the Federal Reserve weighs deviations from its inflation target about twice as heavily as deviations from its output growth target, so the inflation deviation has a weight of 1 while the output-growth deviation has a weight of 0.5. In addition, the contemporaneous value of inflation is replaced by an average of actual inflation for the past three quarters, estimated inflation for the current quarter, and expected inflation for one quarter ahead. A similar term is constructed for output growth.

With the federal funds rate remaining at or near the Federal Reserve's target rate of 5.25 percent through the end of 2008, the 10-year Treasury rate is expected to rise gradually to meet it during the fourth quarter of that year, implying that the yield curve will be inverted for an extended period. The yield curve is projected to reassume a positive slope by the beginning of 2009, with the spread between the federal funds rate and the 10-year rate rising to about 60 basis points by the end of 2010. The 10-year Treasury yield is expected to average 4.8 percent in 2007, representing virtually no change from 2006.

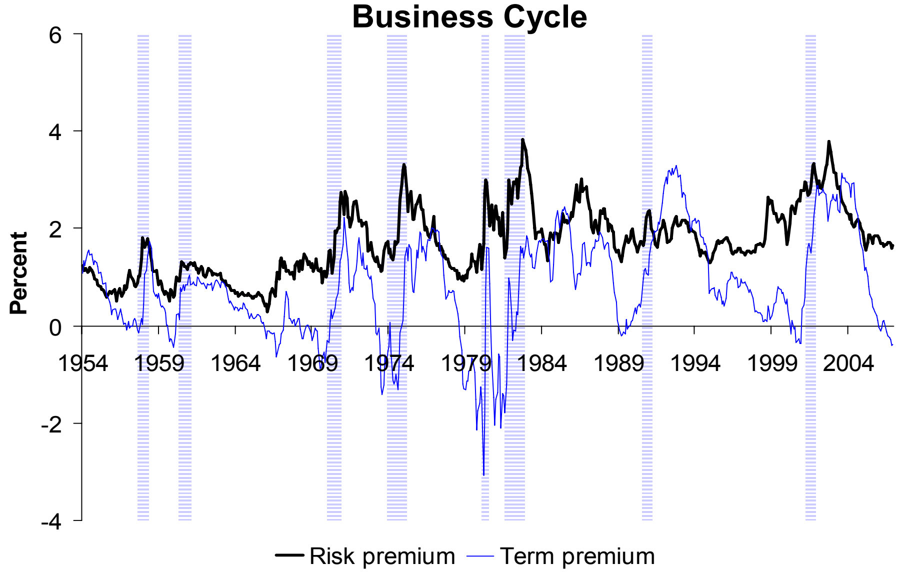
The Term Structure of Interest Rates

The uncertainty surrounding the Budget Division's inflation and interest rate forecasts is compounded by the recent behavior of some traditional leading indicators, such as stock prices and the yield curve. A narrowing of the term spread, resulting in a flattening of the yield curve and typically the result of monetary tightening, has been associated with many recessions (see Figure 27), particularly when such tightening has resulted in an inverted yield curve. However, with both the rate of inflation and its volatility lower since the early 1990s than it had been historically, the term premium — the price paid by borrowers to induce lenders to hold long-term securities — has come down significantly in recent years.

If there has indeed been a structural change in the size of the term premium, the traditional interpretation of a yield curve inversion may not apply in the current environment. Recent developments in the bond market appear to be dominated by a confluence of unusual factors affecting equilibrium in the long-term U.S. Treasury market. These factors include a "glut" of global savings created by the behavior of emerging nations combined with oil revenues generated from last year's high energy prices. In addition, changes in Federal law affecting the behavior of pension funds have also increased this demand. At the same time, higher than expected Federal revenues may have put downward pressure on the supply of long-term U.S. Treasuries. All of these factors have combined to reduce the term premium, resulting in an inverted yield curve, despite the low risk of a recession.

Also depicted in Figure 27 are movements in the risk premium, defined as the gap between the 10-year Treasury yield and the average yield on Moody's Baa seasoned corporate bonds. If in fact the bond market were signaling a recession, one might expect to see an increase in the risk premium, as has occurred in the past. That the term and risk premiums are falling simultaneously lends credence to the notion of a structural change in the bond market. Indeed, it has been speculated that investors now have a higher tolerance for both inflation risk and economic risk. Whatever the cause, evidence of a structural shift adds to the uncertainty underlying both current economic conditions and the forecast.

Figure 27
The Behavior of the Risk and Term Premiums Over the Business Cycle



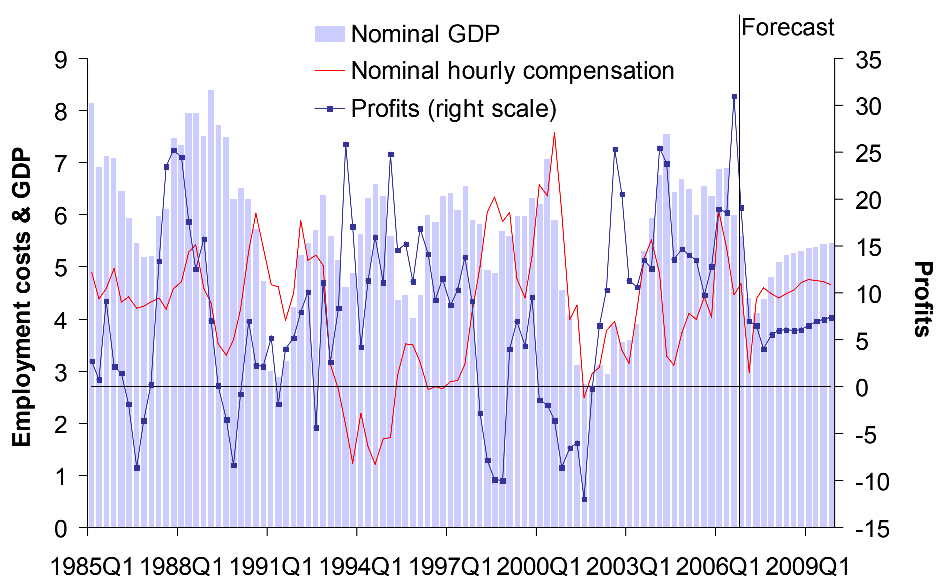
Note: The term premium is defined as the gap between the one-year and 10-year Treasury yields; shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Outlook for U.S. Corporate Profits and the Stock Market

The combination of higher energy prices, strong financial sector activity, and restrained spending by businesses resulted in extraordinary growth in corporate profits from current production (including the capital consumption and inventory valuation adjustments) for 2006. The financial and energy sectors accounted for a large portion of that growth, but profit growth for these two sectors is expected to be much lower in 2007. Though energy prices are likely to rise from their present values, they are not expected to return to their summer 2006 peaks, and financial sector firms are not likely to repeat last year's strong profit performance. Indeed, the Securities Industry and Financial Market Association is projecting a decline in the level of industry profits for 2007. And with the labor market tightening, it is likely that many businesses will experience some increase in wage costs, particularly in the service sector, putting additional downward pressure on profit growth (see Figure 28). The Budget Division projects growth in corporate profits from current production to fall to 5.7 percent in 2007, from 21.7 percent growth for 2006.

Lower growth in corporate profits is expected to eventually translate into diminished equity price growth. The stock market is typically viewed as a leading indicator, since equity prices represent how investors assess the long-term value of holding stocks. Since equity values depend on present and expected future corporate profits, discounted by the interest rate, diminished profits growth will restrain the rise in equity values going forward. Consequently, the Budget Division projects that equity prices, as represented by Standard and Poor's Index of 500 common stocks (S&P 500), will grow by only 4.9 percent annualized in the first quarter of 2007, following growth of 32.4 percent in the fourth quarter of 2006. Since the strong growth at the end of 2006 brings up 2007's starting point, on an annual average basis, the stock market is projected to rise 8.9 percent in 2007, slightly above the 8.4 percent growth posted for 2006.

Figure 28
Employment Costs and U.S. Corporate Profits
Percent change year ago



Source: Moody's Economy.com.

Outlook for Government Spending

The Iraq war continued to be an important driver of Federal government spending in 2006. Between the first quarter of 2003 and the third quarter of 2006, real Federal government expenditures rose 11.5 percent, largely driven by a 15.0 percent rise in defense spending. During the 14 intervening quarters, real defense spending grew at an average annualized rate of 4.6 percent, compared to an average rate of 1.7 percent for nondefense spending (see Figure 29). In contrast, from the first quarter of 1990 through the first quarter of 2003, the average annual percent change in the defense portion of real spending was slightly negative.

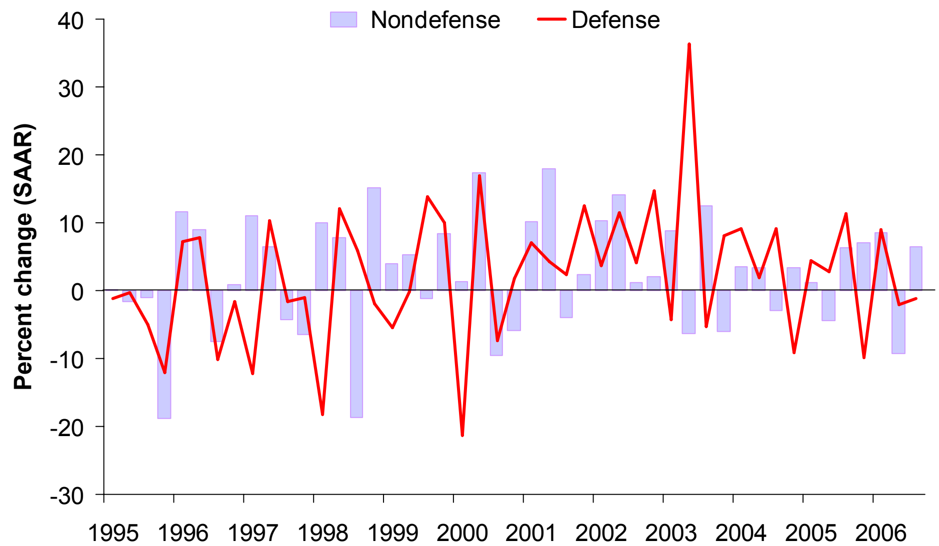
For 2007, Federal government spending is expected to accelerate only slightly as options are considered for improving the situation in Iraq. In addition, a decline in the budget deficit for the 2005-06 Federal fiscal year relieves some of the pressure on nondefense spending growth as well. The Budget Division projects growth of 2.1 percent in the Federal contribution to real GDP for 2007, following 2.0 percent growth for 2006. The moderate increase in spending for 2007 is expected to be accompanied by a small increase in the Federal government budget deficit.[12] For the Federal fiscal year ending September 30, 2007, the Congressional Budget Office (CBO) projects a constant law budget deficit of $286 billion, following a deficit of $248 billion for the 2006 fiscal year and $319 billion for 2005 (see Figure 30).[13] Although the current large demand for long-term U.S. government securities has recently been putting downward pressure on long-term yields, the nation's growing national debt remains a risk to the Budget Division interest rate forecast.

[12] A reduction in the federal contribution to real U.S. GDP does not necessarily imply a lower deficit. Entitlement spending is accounted for under the NIPA as transfer payments to individuals and, therefore, does not represent value added by the government.

[13] Discounting the Social Security trust fund surplus, these deficits become $507 billion in 2004-05 and $503 billion in 2005-06, assuming no changes to current tax law or additional spending initiatives.

Figure 29

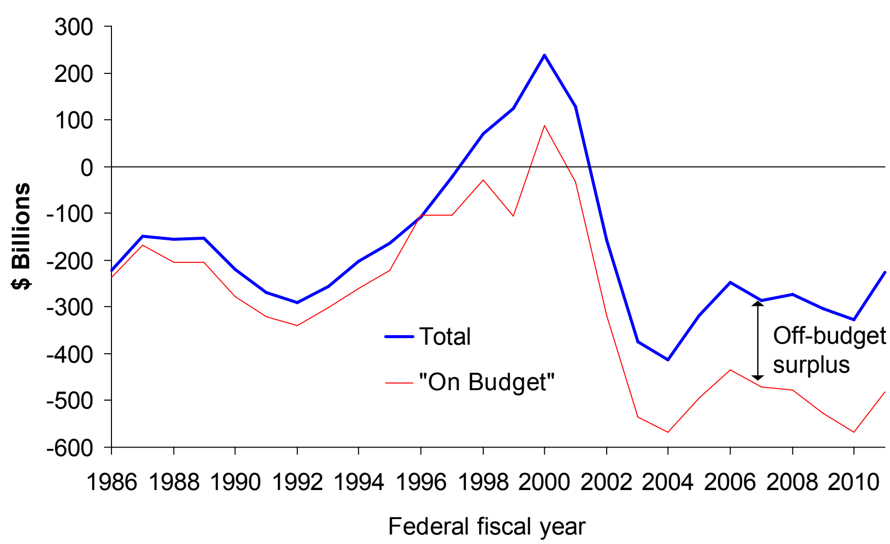
Real Federal Government Spending



Source: Moody's Economy.com.

Figure 30

Federal Budget Surplus or Deficit



Note: Values for 2007-2011 are Congressional Budget Office (CBO) forecast; off-budget surplus includes Social Security trust fund and Postal Service.
Source: Moody's Economy.com; The Budget and Economic Outlook: An Update, Congressional Budget Office (CBO), August 2006.

Spending at the state and local level is expected to grow with increasing tax receipts. Since the bottoming out of the national labor market in the middle of 2003, state and local tax revenues as reported under the National Income and Product Accounts have grown considerably, posting an average seasonally adjusted annualized rate of 8.3 percent from 2003Q3 through 2006Q3. Though job and income growth are projected to decline consistent with the slowing of the national economy going into 2007, growth in state and local revenue typically responds to changes in economic fundamentals with a lag, due primarily to the structure of state and municipal tax laws. Consequently, the state and local government component of real GDP is expected to grow 2.3 percent for 2007, following growth of 2.2 percent in 2006, with slower growth of 2.0 projected for 2008. Growth in overall real government spending of 2.2 percent is projected for 2007, following growth of about the same magnitude for 2006.

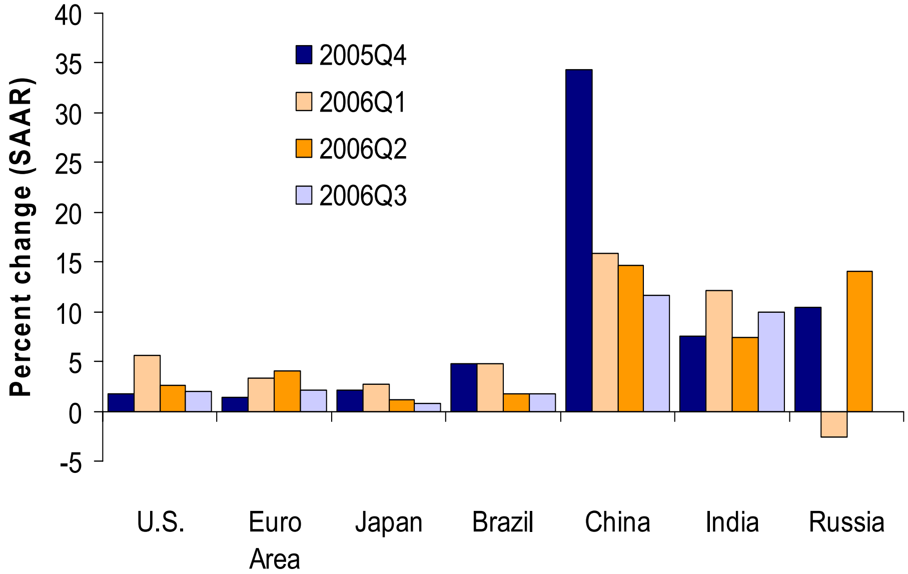
The International Economy

Over the last decade, as the world economy has become increasingly integrated, the global business cycle has become ever more synchronous. Consequently, the slowdown in the U.S. economy is having repercussions on global growth. But the domestic markets of the largest of the emerging nations — Brazil, China, India, and Russia — have become sufficiently large such that their economies are able to sustain some of their momentum despite a slowdown in the U.S. As Figure 31 illustrates, economic growth in China, India, and Russia over the four quarters from the fourth quarter of 2005 through the third quarter of 2006 has tended to follow patterns that do not closely mirror the U.S. trend. Thus, real world GDP is projected to slow in 2007, but by less than the U.S. economy. Real world GDP is projected to grow 3.8 percent in 2007, following growth of 4.3 percent in 2006. Figure 32 shows the favorable impact a growing global economy can have on the demand for U.S. exports, and reinforces the expectation that the current slowdown will not become a recession. The Division of the Budget forecasts that real U.S. exports will grow by 7.5 percent in 2007, following growth of 8.6 percent in 2006.

Slower domestic growth in 2007 is expected to put downward pressure on the demand for imports. The Division of the Budget forecasts real import growth of 5.5 percent for this year, following growth of 6.2 percent in 2006. Although exports are projected to grow faster than imports in 2007, the expected differential is not enough to reduce the nation's trade deficit much below 6.5 percent of GDP, where it was during the third quarter of 2006. As observed in Figure 33, the dollar has experienced a gradual depreciation against the currencies of all of the major trading blocs in the last year, except Japan. Thus, a more precipitous decline in the dollar's foreign exchange value remains a risk. To a large extent, the integration of global capital markets and the central role played by the U.S. economy has made the U.S. a magnet for a substantial portion of the increase in international savings generated by the developing world and the oil-producing nations that have benefited from the recent increases in the world price of oil. The attraction of these savings to U.S. financial markets has kept long-term interest rates low, while propping up the value of the dollar.[14]

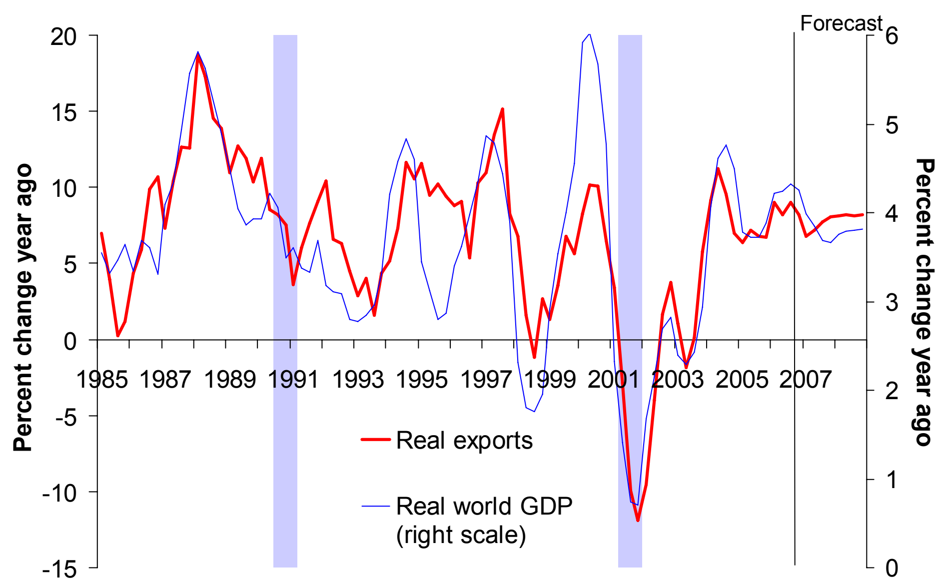
[14] See Ben Bernanke (2005) "The Global Saving Glut and the U.S. Current Account Deficit," The Federal Reserve Board, Remarks by Governor Ben S. Bernanke at the Homer Jones Lecture, St. Louis, Missouri, April 14.

Figure 31
International GDP Growth Comparison



Note: Growth for China is year-over-year; data for 2006Q3 is unavailable for Russia.
Source: Moody's Economy.com; OECD.

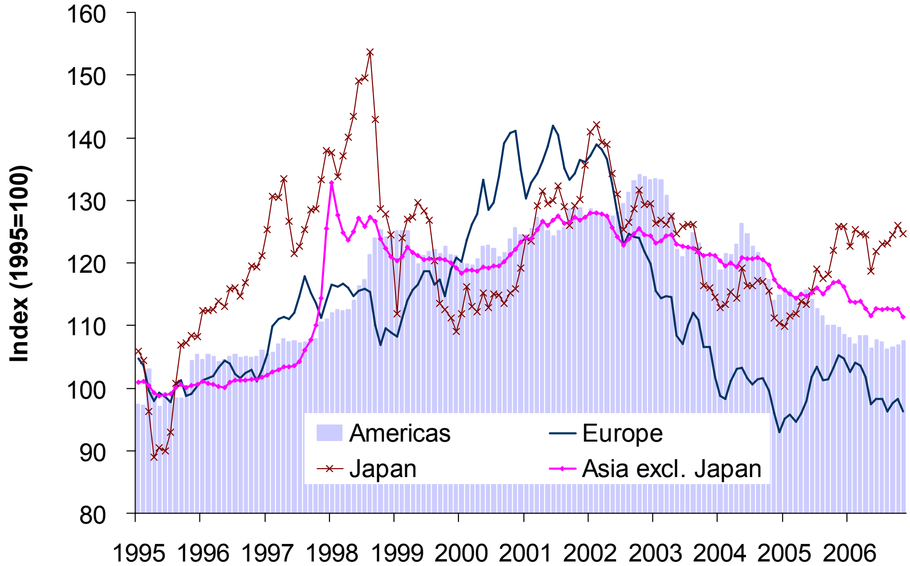
Figure 32
Real Export and World GDP Growth



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; Global Insight; DOB staff estimates.

Figure 33

Foreign Exchange Value of U.S. Dollar



Note: Indexes for the Americas and Asia excluding Japan are trade weighted.
Source: Moody's Economy.com.

Table 1 shows the rate at which total foreign holdings of U.S. Treasury securities has increased over the last two years, along with the holdings of the two largest individual holders, Japan and China. As of October 2006, the most recent month for which data are available, foreign holdings of U.S. Treasury securities totaled about $2.2 trillion, an increase of about $200 billion over October 2005. Had it not been for the substantial foreign flows into U.S. capital markets, the dollar's depreciation might have been even more severe. Going forward, interest rate differentials are likely to play a role in the future direction of the dollar. Though the Budget Division expects no change in the Federal Reserve's target interest rate in the near term, the Bank of England raised its short-term interest rate target by 25 basis points in mid-January and an additional increase by the European Central Bank is likely soon as well. Similar moves by other central banks may result in a further depreciation of the dollar against other major currencies. While it is believed that this development is likely to proceed only gradually over time, as developing nations create more domestic opportunities for investment, a more sudden turn of events is always a risk to the forecast. However, downward pressure on the U.S. trade deficit due to relatively slow domestic growth could help relieve some of the pressure on the dollar.

Capital inflows from foreign nations have affected not only exchange rates, but interest rates as well. As discussed above, long-term U.S. interest rates have remained stubbornly low, resulting in the so-called interest rate "conundrum." A recent study finds that above average capital inflows have lowered the yield on 10-year Treasury notes a full percentage below where it otherwise would be.[15] This episode demonstrates that among the many ramifications of a more integrated global economy, the capacity of a central bank to fully achieve its policy goals may be made more difficult. There may be other risks associated

[15] See Francis E. Warnock and Veronica C. Warnock (2005), "International Capital Flows and U.S. Interest Rates," The Federal Reserve Board, *International Finance Discussion Papers*, 2005-840.

with increased global integration as well. The housing market boom now winding down has also had a global dimension. The possibility of a global real estate bubble creates the potential for a global downturn. More generally, with national business cycles becoming more synchronous, the benefits of international diversification will diminish over time, with the risk that global recessions may be more self-reinforcing than in previous downturns.

TABLE 1
MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES*
($ in billions)

	Japan			Mainland China			Grand Total**	
	$ Level	$ Change	% Share	$ Level	$ Change	% Share	$ Level	$ Change
Jan-05	679.5		36.2	223.5		11.9	1,874.5	
Feb-05	680.8	1.3	35.6	224.9	1.4	11.7	1,914.4	39.9
Mar-05	681.6	0.8	34.9	223.7	(1.2)	11.5	1,952.2	37.8
Apr-05	688.2	6.6	34.7	240.2	16.5	12.1	1,980.9	28.7
May-05	686.8	(1.4)	34.7	243.1	2.9	12.3	1,981.9	1.0
Jun-05	674.2	(12.6)	35.0	270.6	27.5	14.1	1,924.4	(57.5)
Jul-05	669.4	(4.8)	35.2	296.4	25.8	15.6	1,899.2	(25.2)
Aug-05	670.0	0.6	34.8	302.1	5.7	15.7	1,925.9	26.7
Sep-05	672.8	2.8	34.9	306.3	4.2	15.9	1,929.6	3.7
Oct-05	667.0	(5.8)	34.0	301.7	(4.6)	15.4	1,964.3	34.7
Nov-05	666.8	(0.2)	32.8	303.9	2.2	14.9	2,034.4	70.1
Dec-05	669.0	2.2	32.9	310.0	6.1	15.2	2,034.4	0.0
Jan-06	652.4	(16.6)	31.9	313.9	3.9	15.3	2,046.3	11.9
Feb-06	655.6	3.2	31.6	317.2	3.3	15.3	2,073.9	27.6
Mar-06	637.3	(18.3)	30.7	317.4	0.2	15.3	2,077.9	4.0
Apr-06	639.2	1.9	31.0	319.1	1.7	15.5	2,062.3	(15.6)
May-06	637.9	(1.3)	30.9	322.2	3.1	15.6	2,067.1	4.8
Jun-06	635.3	(2.6)	30.4	325.3	3.1	15.6	2,087.1	20.0
Jul-06	637.8	2.5	30.4	330.3	5.0	15.7	2,101.4	14.3
Aug-06	646.4	8.6	30.1	339.1	8.8	15.8	2,148.1	46.7
Sep-06	641.0	(5.4)	30.0	342.3	3.2	16.0	2,133.4	(14.7)
Oct-06	641.1	0.1	29.6	344.9	2.6	15.9	2,163.9	30.5

* Estimated foreign holdings of U.S. Treasury marketable and nonmarketable bills, bonds and notes are based on Treasury Foreign Portfolio Investment survey benchmarks and on monthly data reported under the Treasury International Capital (TIC) Reporting System.
** Grand Total is the total of all 27 countries included in the Portfolio Investment Survey.
Source: U.S. Department of the Treasury/Federal Reserve Board.

Comparison with Other Forecasters

Table 2 compares the Budget Division's (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. Forecasts for 2007 real U.S. GDP growth range from a low of 2.3 percent (DOB and Global Insight) to a high of 2.6 percent (Macroeconomic Advisers and Moody's Economy.com). DOB's 2007 inflation forecast of 2.3 percent is at the high end of the forecast range, but not far above the Blue Chip Consensus of 2.0, and much higher than that of Moody's Economy.com at 1.8 percent. Unemployment rate forecasts for 2007 are very close, ranging from 4.8 to 4.9 percent. A brief description of the Budget Division's methodology for developing its U.S. macroeconomic forecast appears in Box 3.[16]

[16] For a more detailed version of the Budget Division's forecast methodology, see New York State Division of the Budget, *2006-07 New York State Executive Budget — Economic and Revenue Outlook: Analysis and Methodology*, pp. 381-408.

TABLE 2
U.S. ECONOMIC FORECAST COMPARISON

	2006 (preliminary)	2007 (forecast)	2008 (forecast)	2009 (forecast)	2010 (forecast)
Real U.S. GDP (% change)					
DOB	3.3	2.3	3.0	3.2	3.2
Blue Chip Consensus	3.3	2.4	3.0	NA	NA
Moody's Economy.com	3.3	2.6	NA	NA	NA
Global Insight	3.3	2.3	3.2	3.4	3.2
Macroeconomic Advisers	3.3	2.6	3.2	NA	NA
Consumer Price Index (% change)					
DOB	3.2	2.3	2.5	2.5	2.5
Blue Chip Consensus	3.3	2.0	2.3	NA	NA
Moody's Economy.com	3.2	1.8	NA	NA	NA
Global Insight	3.2	1.8	2.1	1.9	1.9
Macroeconomic Advisers	3.2	1.8	2.4	NA	NA
Unemployment Rate (%)					
DOB	4.7	4.9	5.1	5.0	5.0
Blue Chip Consensus	4.6	4.8	4.9	NA	NA
Moody's Economy.com	4.6	4.8	NA	NA	NA
Global Insight	4.6	4.9	4.9	4.6	4.4
Macroeconomic Advisers	4.6	4.9	5.1	NA	NA

Source: Projections for 2006-2010 by New York State Division of the Budget, December 2006; Blue Chip Economic Indicators, January 2007; Moody's Economy.com, Macro Forecast, January 2007; Global Insight, US Executive Summary, January 2007; and Macroeconomic Advisers, Economic Outlook, January 2007.

Risks to the U.S. Forecast

Although the Budget Division believes that the Federal Reserve has successfully managed a soft landing and that the U.S. economy will avoid a near-term recession, there is considerable risk to the forecast. As always, the forecast is contingent upon the absence of severe shocks to the economy. Unpredictable events such as a major terrorist attack remain the biggest risk to continued economic expansion. Such a shock could impair economic growth in many ways, such as causing a plunge in consumer confidence, the stock market, investment spending by firms, or impairing the transportation of goods and services, or causing a large spike in oil prices. A severe and extended downturn could easily materialize from such shocks.

A more severe downturn in the housing market than anticipated could derail the national economy from its predicted path. The additional weakness emanating from the housing and manufacturing sectors could result in lower job and income growth than expected, which in turn would produce lower growth in household spending than implied by the forecast. A more abrupt increase in energy prices than projected could reduce the ability of consumers and businesses to spend on non-energy related items. Such cutbacks could make firms behave even more cautiously and reduce business capital spending. Persistently high energy prices also raise the possibility that inflationary expectations could ratchet higher, causing the Federal Reserve Board to revert back to a tightening of monetary policy. Higher interest rates would, in turn, further exacerbate the slowdown and raise the likelihood of a recession.

A sharp reduction in the inflow of foreign funds could produce new inflationary pressures by weakening the U.S. dollar, which might also cause the Federal Reserve to resume tightening. Such a development might also produce an imbalance in the market for U.S. Treasury securities, causing long-term rates to rise further than expected in order to fund the Federal budget deficit. Higher Federal spending on the Iraq war than anticipated could have a similar effect. Higher interest rates could, in turn, induce households to increase the personal saving rate, resulting in even further cutbacks in consumer spending. This risk would only be exacerbated by lower than expected equity or housing prices, particularly if the anticipated easing of home prices happens suddenly rather than gradually, as expected. Again, lower consumption growth could weaken expected future corporate profits and, in turn, lower employment and investment growth.

On the other hand, lower than expected inflation, perhaps as a result of an even greater drop in the price of oil or more modest growth in unit labor costs, possibly due to slower growth in wages or stronger productivity growth, could induce the Federal Reserve to reduce its short-term interest rate target, resulting in stronger consumption and investment growth than projected. A more rapid increase in export growth due to either a weakened dollar or faster global growth could generate a somewhat stronger increase in total output than expected. Moreover, stronger employment growth could result in higher real wages, supporting faster growth in consumer spending than currently anticipated.

BOX 3
THE DIVISION OF THE BUDGET
U.S. MACROECONOMIC MODEL

Macroeconomic modeling has undergone a number of important changes during the last 25 years, primarily as a result of developments in economic and econometric theory. These developments include the incorporation of both rational expectations and micro-foundations based on the long-run optimizing behavior of firms and households. In addition, analysts now employ more flexible specifications of behavioral relations within a vector autoregressive (VAR) model framework. Recent developments also include a more rigorous analysis of the time series properties of commonly used macroeconomic data series, as well as the implications of these properties for model specification and statistical inference. There has also been a significant improvement in the understanding of the long-run equilibrium relationships among macroeconomic data series and the predictive power of these relationships in constraining economic dynamics.

The Budget Division's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 98 core equations, of which 29 are behavioral. In addition, there are hundreds of auxiliary forecasting equations that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2006:3. Our analysis borrows heavily from the Federal Reserve Board model developed during the 1990s.[1] We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

In economic parlance, DOB/U.S. could be termed a neoclassical model. Agents optimize their behavior subject to economically meaningful constraints. Households exhibit optimizing behavior when making consumption and labor supply decisions, subject to a wealth constraint. Expected wealth is, in part, determined by expected future output and interest rates. Likewise, firms maximize profits when making labor demand and investment decisions. The value of investment is affected by the cost of capital, as well as expectations about the future path of output and inflation. The economy's long-run growth path converges to an estimate of potential GDP growth. Monetary policy is administered through adjustments to the federal funds rate, as guided by Taylor's Rule. Current and anticipated changes in this rate influence agents' expectations and the rate of return on various financial assets.

DOB/U.S. incorporates three key theoretical elements into this neoclassical framework: expectations formation, equilibrium relationships, and dynamic adjustments (movements toward equilibrium). The model addresses expectations formation by first assuming that expectations are rational and then specifying a common information set that is available to economic agents who incorporate all relevant information when forming and making their expectations. Long-run equilibrium is defined as the solution to a dynamic optimization problem carried out by households and firms. The model structure incorporates an error-correction framework that ensures movement back to long-run equilibrium.

The model structure reflects the microeconomic foundations that govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances (such as those caused by sticky prices and wages). DOB/U.S. incorporates dynamic adjustment mechanisms that reflect the fact that while agents are forward looking, they do not adjust to changes in economic conditions instantaneously. The presence of frictions (costs of adjusting productive inputs, sticky wages, persistent spending habits) governs the adjustment of nonfinancial variables. These frictions, in turn, create imbalances that constitute important signals in the setting of wages and prices. In contrast, the financial sector is assumed to be unaffected by frictions due to the negligible cost of transactions and the presence of well-developed primary and secondary markets for financial assets.

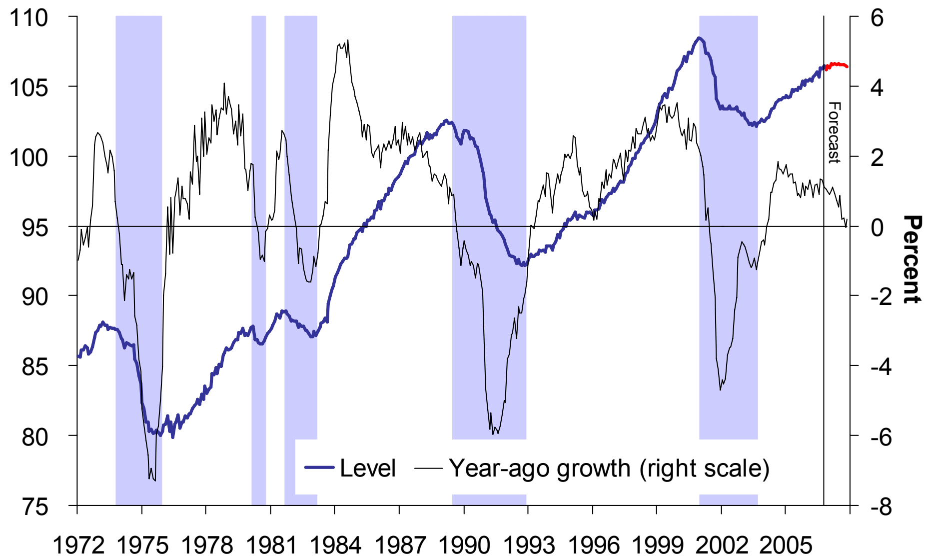
[1] "A Guide to FRB/USA Macroeconomic Model of the United States," edited by F. Brayton and P. Tinsley. Federal Reserve Board, Version 1.0, October 1996.

THE NEW YORK STATE ECONOMY

The State's economic expansion entered its fourth year in September 2006 with State employment and wages experiencing solid growth. However, consistent with the Federal Reserve's effort since mid-2004 to slow the national economy, the momentum of the State's expansion appears to have peaked in 2005, as indicated by the deceleration in the New York State Index of Coincident Economic Indicators in the beginning of that year (see Figure 34). State private sector employment is estimated to have grown almost 1 percent in 2006, just below the 2005 growth rate.

Figure 34

New York State Index of Coincident Economic Indicators



Note: Shaded areas represent N.Y. recessions; forecast is derived from the New York State Leading Index.
Source: Moody's Economy.com; DOB staff estimates.

In contrast to a slowing labor market, State personal income growth actually accelerated in 2006, expanding an estimated 6.8 percent following 4.2 percent growth in 2005. Wages, the largest component of personal income, are estimated to have grown 7.5 percent in 2006, following growth of 5.1 percent in 2005. But last year's strong income performance was due in large part to estimated finance and insurance sector bonus growth of 35.9 percent in the first quarter of the year. That growth was largely related to financial market activity that had occurred during the prior year. With New York City's leading sectors — the finance, tourism, and business services industries — among the least affected by the national housing and manufacturing downturns, the brunt of the State's slowdown is being felt by the upstate economy and the downstate areas outside of New York City.

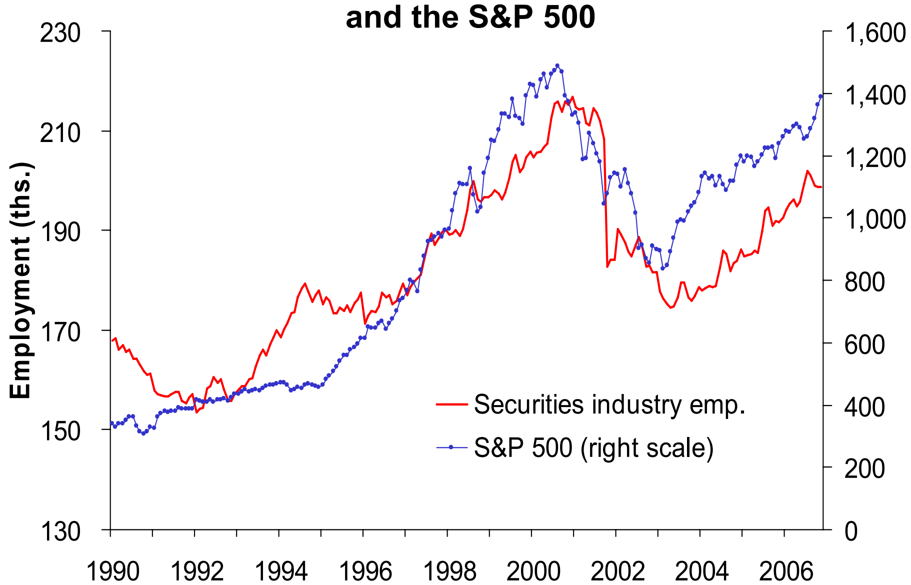
The peaking of State economic activity in 2005 presaged the slowdown in the national economy that began in the fourth quarter of that year. The results of a Budget Division analysis comparing the State's unique business cycle pattern to that of the nation as a whole indicates that while State and national turning points do not coincide exactly, their correspondence is quite close (see Box 4). Consistent with the national slowdown, New

York private sector employment growth is projected to slow to 0.8 percent in 2007, while personal income and wage growth are projected to fall to 5.6 percent and 5.7 percent, respectively.

The forces behind the anticipated slowdown in New York for 2007 highlight the impact national economic trends have on the State economy. First, as the New York State economy becomes increasingly service-oriented, it depends ever more on demand generated by the rest of the nation and the world for professional, business, and financial services produced here, particularly in the downstate regions. The slowdown in the national economy and corporate profits is expected to slow the growth in demand for those services. Second, the current weakness in the nation's manufacturing sector, notably the auto industry, is expected to continue to have a negative impact on the State's manufacturers. Every aspect of the domestic auto industry has been undergoing a critical phase of restructuring, from the purchase of raw materials to the configuration of the factory assembly line. Given the significant portion of the upstate economy that is tied to auto production, these developments can be expected to have a negative effect on employment in those regions.

A third factor is the spread of the national housing sector decline to New York, though continued strength in nonresidential building will prevent an outright decline in construction employment for 2007. State employment related to residential construction and other types of housing related activity such as brokering, mortgage lending, and furniture sales is also being affected by the housing downturn. Finally, the slowdown in U.S. corporate profits growth, coupled with higher long-term interest rates, will put pressure on equity prices. This development will, in turn, result in lower securities industry profits and reduced employment growth in that industry (see Figure 35). Lower corporate profits will also reduce the demand for New York professional and business services. Thus, the New York City economy will eventually feel the impact of the current slowdown.

Figure 35
New York State Securities Industry Employment and the S&P 500



Source: Moody's Economy.com.

BOX 4
NEW YORK STATE INDICES OF COINCIDENT AND LEADING ECONOMIC INDICATORS

In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson methodology and rests on the notion that co-movements in many macroeconomic time series can be captured by a single unobserved variable representing the overall state of the economy.[2] Four State data series — private sector employment, hours worked in the manufacturing sector, the unemployment rate, and sales tax receipts (as a proxy for retail sales) — are combined into a single index using the Kalman filter, a common approach to the estimation of unobserved variables. Based on the DOB Coincident Index, five business cycles have been identified for New York since the early 1970s, as reported in the table below. A recession is judged to have begun if the DOB Coincident Index sustains three to five consecutive declines of significant depth. A similar approach is used to date business cycle troughs.

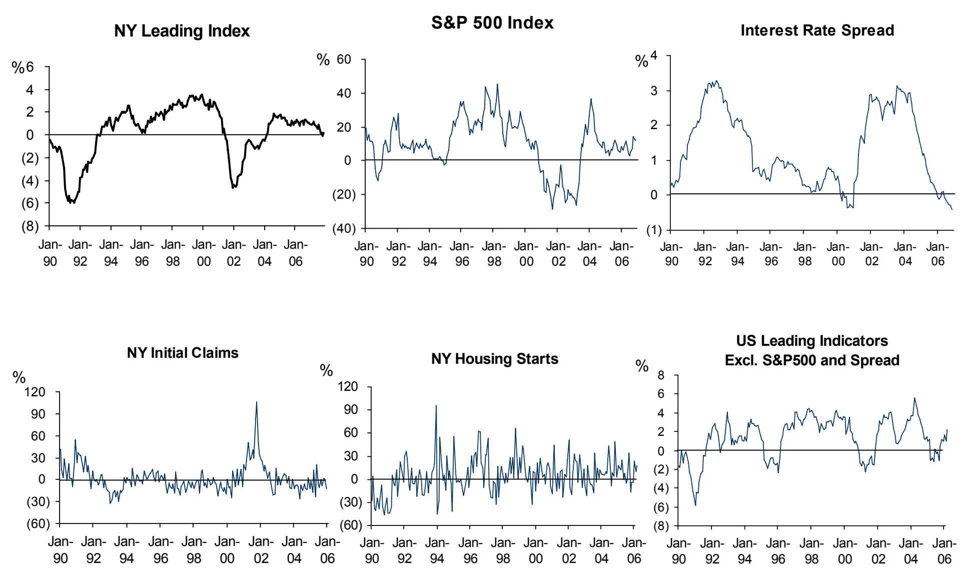
NEW YORK STATE BUSINESS CYCLES

Peak Date	Trough Date	Recession Length (in months)	Private Sector Job Losses
October 1973	November 1975	25	384,800
February 1980	September 1980	7	54,800
August 1981	February 1983	18	76,600
June 1989	November 1992	41	551,700
December 2000	August 2003	32	324,600

Source: DOB staff estimates.

In order to gauge the future direction of the State economy, the Budget Division produces the New York State Index of Leading Economic Indicators, which yields a forecast for the Coincident Index up to 12 months ahead. The forecasting model includes the following five leading economic variables in a vector autoregressive framework: the U.S. Index of Leading Economic Indicators (excluding stock prices and the interest rate spread), New York housing starts, New York initial unemployment insurance claims, stock prices, and the spread between the 10-year and one-year U.S. Treasury rates.

Variables Used in New York Index of Leading Indicators



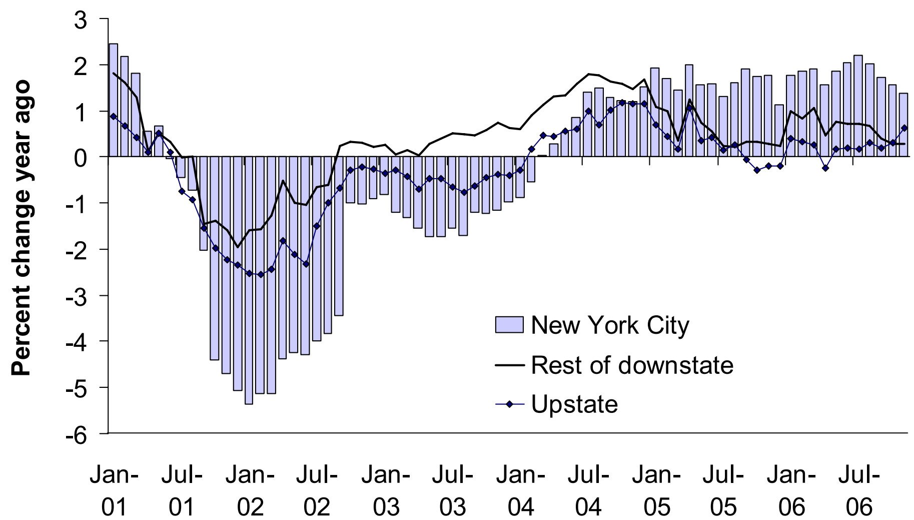
Note: All percent changes are from prior year.
Source: Moody's Economy.com, DOB staff estimates.

[1] R. Megna, and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," *International Journal of Forecasting*, Vol 19, pp 701-713.
[2] J.H. Stock and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G. H. Moore (eds.), *Leading Economic Indicators: New Approaches and Forecasting Records*, New York: Cambridge University Press, pp. 63-85.

New York employment is estimated to have grown in 2006 at slightly above its long-term historical average rate. However, the strength of the State's labor market emanated largely from New York City due to the robust performance of Wall Street, the real estate market, tourism, and the City's business and professional business services industries. Figure 36 compares private sector employment growth for New York City with that of the five downstate counties outside of New York City and the rest of the State, from January 2001 through November 2006. It is evident that much of the State's recent job growth has been driven by New York City. In contrast, employment growth for the rest of downstate was significantly weaker, while upstate growth was relatively flat for almost all of last year.

Figure 36

Private Sector Employment Growth: NYC, Upstate, and Rest of Downstate



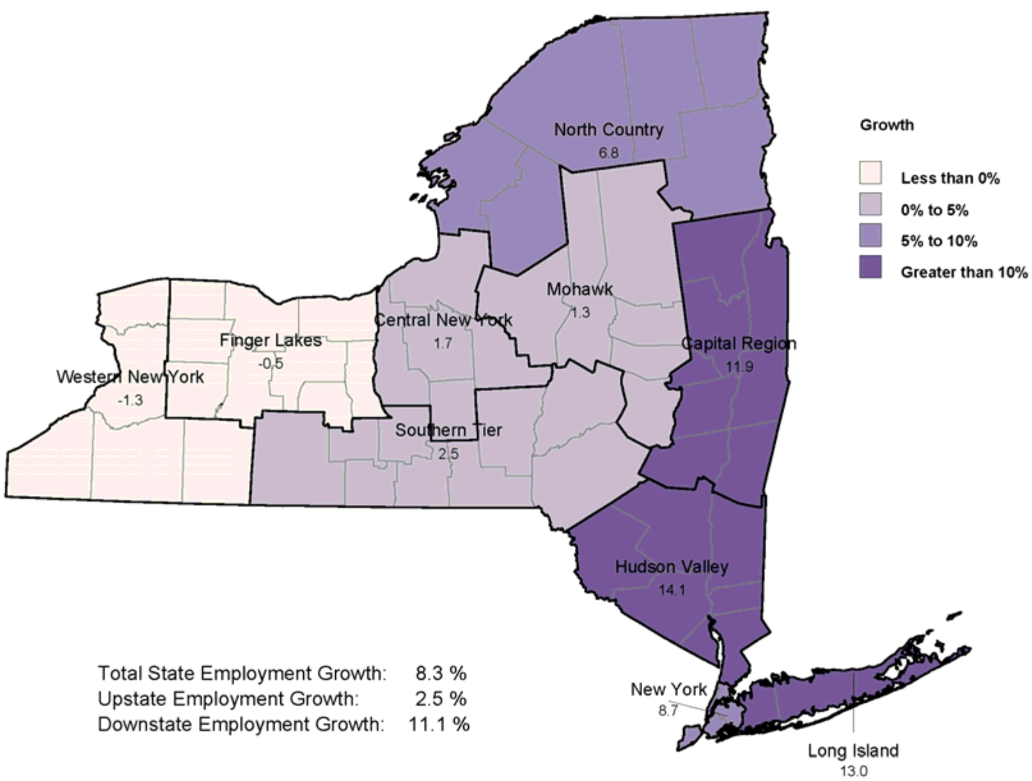
Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor, CES.

While the slowdown in the downstate counties outside of New York City appears cyclically related, the weakness in the upstate regions appears more long term. Indeed, for the last 10 years, the State's seven upstate labor market regions have lagged significantly behind downstate growth. As illustrated in Figure 37, employment growth for the State as a whole grew by more than 8 percent between the first half of 1996 and the first half of 2006, the most recent period for which the most accurate data — Quarterly Census of Employment and Wages (QCEW) data — are available, but the upstate region grew only 2.5 percent. Employment growth was particularly weak in the Western New York and Finger Lakes regions, where manufacturing still accounts for a significant portion of employment. Employment fell by more than 1 percent in Western New York and declined slightly in the Finger Lakes region.

The most recent data indicate that the New York City economy remains vibrant. Data for the first half of 2006, compared to the same period in 2005, indicate that New York City experienced continued strong private sector employment growth of 2.1 percent. Most of the

State's other regions saw a slowdown in private sector job growth during the first half of 2006, while the Western New York and Finger Lakes regions experienced declines. A more detailed analysis of regional employment trends can be found in Tables 4 - 7, at the end of "The New York State Economy" section.

Figure 37
Regional Job Growth Disparity 1996-2006



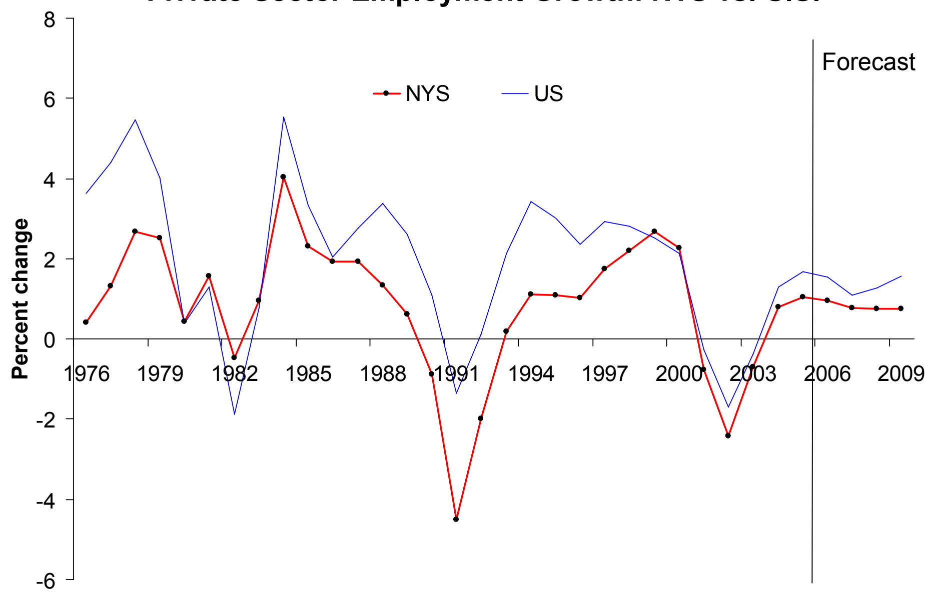
Outlook for Employment

Total State nonagricultural employment is projected to rise 0.7 percent in 2007, down slightly from estimated growth of 0.8 percent for 2006. Projected growth for 2007 is below the 1.1 percent increase expected for the nation as a whole, but is consistent with recent historical trends in the State's relative employment performance. Since 1960, the State's rate of employment growth during expansions has been consistently below that of the nation (see Figure 38). Private sector employment is projected to grow 0.8 percent in 2007, representing an increase of about 56,000 jobs, following growth of 1.0 percent for 2006. Government sector employment is expected to grow by 0.2 percent for 2007, following a slight decline in 2006.

Table 3 reports projected changes in employment for selected groups of North American Industry Classification System (NAICS) sectors. State private sector job growth is expected to be concentrated in the education sector; the professional, scientific, and technical services sector; and the health care and social assistance services sector, with other sectors experiencing slower growth. The manufacturing and mining, and utilities sectors are expected to continue to show job losses, though at a slower rate than in 2006. Although the professional, scientific, and technical services sector is projected to grow a healthy 1.8 percent in 2007, this is only about half of its estimated rate for 2006, consistent with the slowdown of the national economy. The State's average annual unemployment rate is expected to be 5.0 percent in 2007, higher than the 4.5 percent rate for 2006, but well below the State's most recent unemployment rate peak of 6.5 percent posted in September 2003.

Figure 38

Private Sector Employment Growth: NYS vs. U.S.



Source: Moody's Economy.com; NYS Department of Labor; DOB staff estimates.

An examination of current labor market dynamics supports the Budget Division forecast for continued but slower growth in the State's labor market. Box 5 describes the methodology used to perform the analysis. Figure 39 shows the gross rates of job creation and destruction, as defined in Box 5, for the period from the first quarter of 1993 through the second quarter of 2006. When the State economy was booming during the early part of the period, the gross number of jobs created well exceeded the gross number destroyed. However, the tide turned in the third quarter of 2001, with the number of jobs destroyed overtaking the number of jobs created. The full impact of September 11 is seen during the first quarter of 2002, when the gap between the gross rates of job destruction and job creation is at its widest. The job gap shows a narrowing trend after that, except for a small widening in the second quarter of 2003, perhaps indicating the impact of the Iraq war on the business sector outlook.

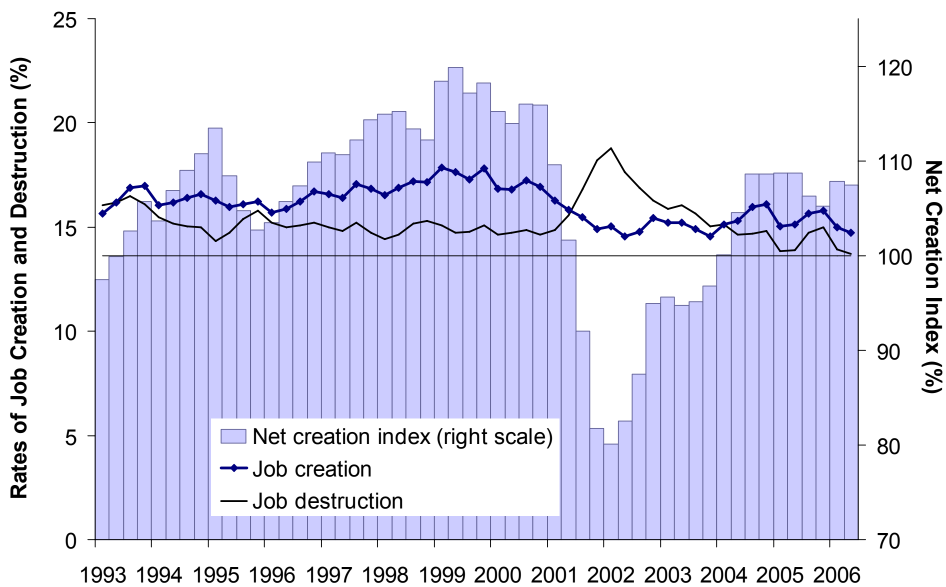
By late 2003, the economic stimulus provided by the expanding national economy was enough to bring the State's 2001-2003 recession to an end. Figure 40 indicates that because a significant portion of the State economy is export-oriented, there is a strong association between State export growth and private sector employment. Thus, a strong U.S. economy combined with global growth helped to keep the State's net job creation index above 100 percent from the first quarter of 2004 through the second quarter of 2006. However, the rate of job creation for the first two quarters of 2006 was down relative to the end of 2005, possibly signaling that the rate of job destruction may increase in the near future. This development would result in a weakening of net employment growth going forward, consistent with the Budget Division view that slower national and global growth can be expect to reduce the State's pace of job growth from 1.0 percent in 2006 to 0.8 percent in 2007.

TABLE 3
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2007
SELECTED SECTORS

	Percent	Levels
Total Private	**0.8**	**55,600**
Utilities	(0.9)	(300)
Construction	0.9	2,800
Manufacturing and Mining	(1.1)	(6,100)
Wholesale Trade	0.5	1,700
Retail Trade	0.3	2,300
Transportation and Warehousing	0.8	1,700
Information	0.2	600
Finance and Insurance	1.0	5,400
Real Estate and Rental and Leasing	0.5	900
Professional, Scientific, and Technical Services	1.8	9,900
Management, Administrative, and Support	0.8	4,300
Educational Services	1.9	5,300
Healthcare & Social Assistance Services	1.6	19,100
Leisure, Hospitality and Other Services	0.8	7,800
Government	**0.2**	**3,100**
Total	**0.7**	**58,700**

Note: Management, and administration and support services includes NAICS sectors 55 and 56. Sum of sectors may not match the total due to rounding.
Source: NYS Department of Labor; DOB staff estimates.

Figure 39
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

BOX 5
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market — even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 2.4 percent in 2002, about 39.7 percent of the State's business establishments created jobs. The data for this study derive from the Quarterly Census of Employment and Wages (QCEW) program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2006, the most recent period for which data are available, the QCEW data covered 560,720 private sector establishments in New York State and 7,010,184 private sector employees.

Establishment-level data facilitate the investigation of questions that cannot be addressed at the aggregate level. Such questions include whether the primary source of job creation is new firm startups or existing firms that have chosen to expand, or whether net employment growth is the result of an increase in the rate of job creation or a decrease in the rate of job destruction. Two industries may exhibit the same net change in employment but one may have a high job turnover rate, resulting from high gross rates of gains and losses, while the other may have a low turnover rate. Previous studies have found that an increase in the turnover rate tends to be associated with an increase in net growth.[3] Hence, the underlying dynamics may give clues as to the near-term direction of the business cycle, and an industry that suddenly starts to experience an increase in firm startups or gross job creation may turn out to be a leading industry in the economy's next growth phase. Moreover, one can also determine whether new jobs are being created in relatively high-wage or low-wage industries.

Because QCEW data are not seasonally adjusted, comparisons over time should be restricted to the same quarter of various years. We therefore analyze job growth relative to the same quarter of the previous year. Comparability across time also requires normalizing by a common base. Because the jobs that were eliminated between the two quarters are no longer in the 2006 job count, we follow BLS and define the base as the average of the two quarters.

The gross number of jobs created between the second quarter of 2005 and the second quarter of 2006 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2005 but did not exist four quarters prior), expanding firms that existed in both quarters, and firms created through mergers and acquisitions. Between the second quarter of 2005 and the second quarter of 2006, a total of 1,028,316 jobs were created from these three sources. Performing this calculation for the second quarter of 2006 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gain + Existing firm gain + M\&A gain}}{\text{Base}} = \frac{1{,}028{,}316}{6{,}974{,}473} = 14.7\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2006 is 14.7 percent. An analysis of job creation at the establishment level also confirms the conventional wisdom that small firms are the State economy's primary growth engine. For example, of the over one million gross number of jobs created during the second quarter of 2006, 51 percent were created by firms with less than 50 employees. Another 24 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 25 percent by large firms with workforces exceeding 250.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2005 but not in the second quarter of 2006, jobs lost from contracting firms that existed in both quarters, and jobs lost due to a merger or acquisition. We then divide by the State's job base as defined above, which for the second quarter of 2006 yields:

$$\text{Gross rate of job loss} = \frac{\text{Shutdown loss + Existing firm loss + M\&A loss}}{\text{Base}} = \frac{956{,}898}{6{,}974{,}473} = 13.7\%$$

[1] For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2005," <http://www.bls.gov/news.release/pdf/cewbd.pdf>.
[2] For a detailed description of QCEW data, see *2003-04 New York State Executive Budget*, Appendix II, p. 100.
[3] See R. Jason Faberman, "Job Flows and Labor Dynamics in the U.S. Rust Belt." *Monthly Labor Review*, September 2002, Vol. 125, No. 9, pp. 3-10.

(CONTINUED FROM PREVIOUS PAGE) BOX 5

This result states that the gross rate at which jobs were lost between the two quarters is 13.7 percent. Thus, for the second quarter of 2006, the gross rate of job creation exceeded the gross rate of job destruction. A net index of job creation is constructed by dividing the gross rate of job gains by the gross rate of job losses. For the second quarter of 2006, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{14.7\%}{13.7\%} = 107.5\%$$

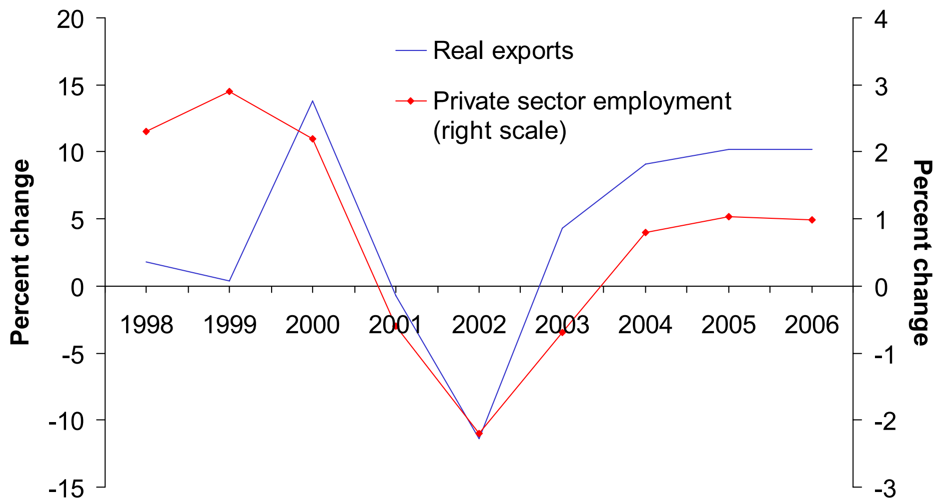
A net index value of exactly 100 percent implies that the gross number of jobs created is entirely offset by the number of jobs destroyed; a value above 100 percent, as we see above, indicates that employment is growing; a value below 100 percent indicates a net job loss, implying the presence of a "job gap."

As illustrated in the table below, two industries can have similar values for the net index but have very different underlying dynamics. For example, for the second quarter of 2006, the educational services sector and the professional, scientific, and technical services sector had similar net indices of job creation of 124.1 percent and 132.4 percent, respectively. However, the professional, scientific, and technical services sector has a much higher turnover rate than the educational services sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2006Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Educational Services (61)	8.6%	6.8%	124.1%
Professional, Scientific, and Technical Services (54)	16.8%	12.7%	132.4%

Figure 40
Growth in Real Exports from New York and Private Sector Employment

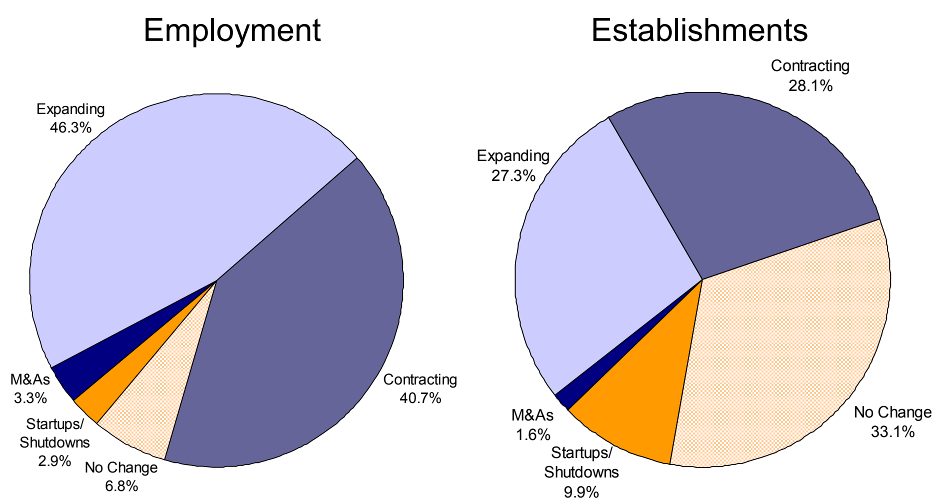


Note: Real export growth for 2006 is based on 11 months of data.
Source: Moody's Economy.com.

The State's Employment and Establishment Base

Figure 41 shows the composition of the State's employment and establishment base, as defined in Box 5, for the second quarter of 2006 by type of establishment. Startups and shutdowns accounted for about 9.6 percent of the establishment base for 2006Q2, but because these firms tend to be quite small, averaging only about four employees per firm, they accounted for only about 2.9 percent of the State's private sector employment base for that quarter. Startup firms added about 91,000 employees to total employment, net of shutdowns. Firms that were either acquired or absorbed by other firms accounted for 1.6 percent of the establishment base. The average size of these firms was about 26 employees and accounted for 3.3 percent of employment.

Figure 41
Composition of State's Employment and Establishment Base
2006Q2



Source: NYS Labor Department; DOB staff estimates.

Existing firms are classified according to whether their employment levels expanded, contracted, or experienced no change relative to the same quarter of the prior year. Existing firms represent an overwhelming proportion of both private sector establishments and employment — 88.5 percent of the State's establishment base and 93.8 percent of the job base in the second quarter of 2006. As indicated in the right hand panel of Figure 41, the three types of existing firms accounted for roughly equal shares of establishments in the second quarter of 2006 but for very different shares of employment. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging less than three employees, expanding firms averaging 23 employees, and contracting firms averaging 16. Because existing firms account for so large a share of industry employment at any given point in time, they account for an overwhelming share of employment growth over time as well.

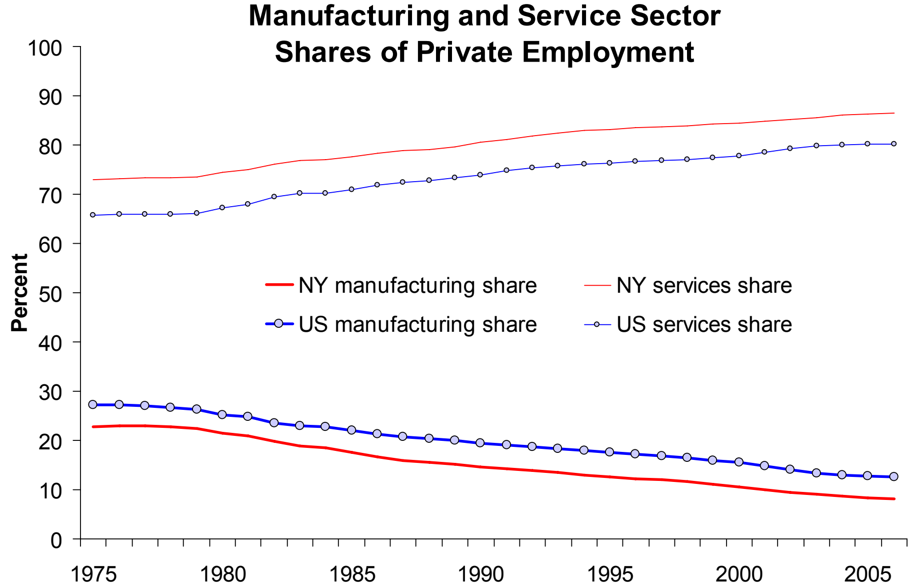
Figure 41 indicates that firm start-ups make only a small contribution to net job growth in their initial stages. Indeed, much of the employment gains associated with the birth of new businesses are offset by the losses associated with firm shutdowns. However, business startups are ultimately the source of the State economy's future dynamism. Small businesses, defined as firms with 50 employees or less, are the engine of employment growth among firm startups. Small businesses were responsible for creating about 69.5 percent of all the jobs created by new businesses during the period from 2001 through 2005. This compares to 19.9 percent for mid-size firms of 51 to 250 workers and 10.6 percent for large firms with more than 250 workers.

Manufacturing

The Budget Division forecast for manufacturing sector employment represents a continuation of that sector's long-term downward trend, though the rate of decline is projected to slow going forward. For 2007, manufacturing employment is expected to decline 1.1 percent to 565,000 workers, following a decline of 2.1 percent in 2006. The 2007 projected level of manufacturing employment is 38 percent below the 915,000 workers employed in that sector in 1991. The State's manufacturing sector will continue to be negatively affected by the domestic auto industry's current inventory adjustment, as well as the longer-term trend of industry restructuring and increasing globalization of production. Thus, state manufacturing employment is expected to continue to fall through the end of the forecasting period.[17]

Figure 42

Manufacturing and Service Sector Shares of Private Employment



Note: Values for 2006 are based on two quarters of data for N.Y. and 11 months of data for the U.S.
Source: Moody's Economy.com; NYS Department of Labor; DOB staff estimates.

[17] The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2005, mining accounted for less than 1 percent of total employment in this category and will be ignored for the remainder of the discussion.

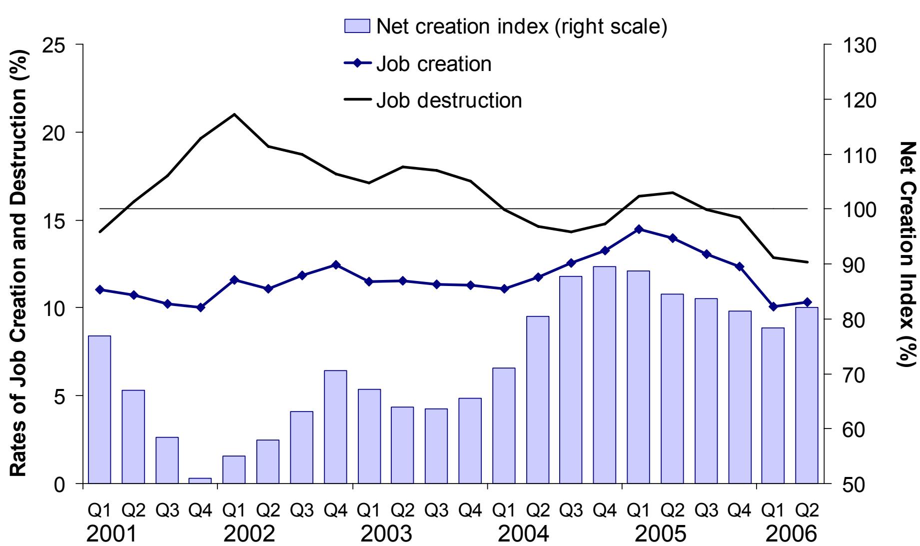
Since the mid-1970s, New York's comparative advantage has been shifting away from manufacturing in favor of the production of services (see Figure 42). Productivity growth and competitive pressures arising from increased globalization have resulted in the decline of State manufacturing employment each year since 1984. The rate of job loss from this sector accelerated during the recent recession, as it did during the earlier recessions of 1982 and 1991.

Although the manufacturing sector continues to bear the brunt of the State's job losses, there has been some improvement since the end of the recession. Manufacturing lost 50,400 jobs in 2002, a decline of 7.2 percent, representing the greatest rate of decline since data collection under the QCEW program begain in 1975. Net job losses eased somewhat in 2003 due to a decline in the gross rate of job destruction, while the gross rate of job creation remained flat (see Figure 43). In 2004, job creation began to rise, while job destruction continued to fall, leading to a net index of job creation value of 90 percent by the end of the year. A total of about 14,300 jobs were lost in the first half of 2006 compared to 13,000 during the same period in 2005. Although the large size of the job gap during the first half of 2006 signals the likelihood that the State's manufacturing sector will continue to lose jobs in 2007, the decline is not expected to be as rapid as in the recent past.

Manufacturing is a very important part of the regional economies of Western New York and the Finger Lakes. During the second quarter of 2006, these two regions accounted for 29.1 percent of State manufacturing employment, though they accounted for only 13.9 percent of total State employment. Greatly affected by the continued downsizing by the State's large manufacturers, the Finger Lakes region experienced the most severe decline in manufacturing as a share of total regional employment. That share fell from 19.5 percent in the second quarter of 2000 to 15.5 percent in the second quarter of 2006, a decline of 4.0 percentage points. Western New York had a similar experience, with its manufacturing share falling 3.6 percentage points over the same period.

Figure 43

Manufacturing and Mining



Source: NYS Department of Labor; DOB staff estimates.

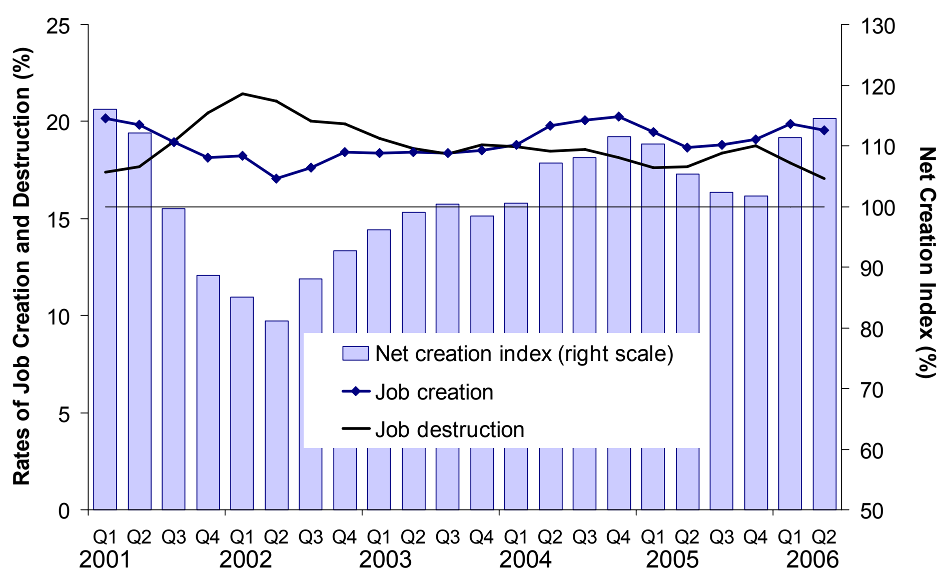
Manufacturing's share of total employment fell in the State's other regions as well, though less sharply. Although New York City experienced the greatest absolute number of manufacturing losses, the decline in the sector's share of total regional employment was among the smallest of the ten regions. In the second quarter of 2006, New York City's share of total State employment was 42.0 percent, but its share of State manufacturing employment was only 18.8 percent. However, while New York City's share of the State manufacturing employment was declining, shares for Long Island and the Hudson Valley were increasing. The Hudson Valley's share of State manufacturing employment increased 1.8 percent from the second quarter of 2000 to the second quarter of 2006, while Long Island's share increased 1.3 percent over the same period.

Construction and Real Estate

Due to the recent strength of the State's housing market, the construction and real estate sectors are among the few in New York that are estimated to have surpassed their pre-recession peak employment levels in 2006, due largely to increases in the rate of job creation (see Figure 44). However, growth in State construction employment is estimated to have peaked in 2006, due to the deceleration of housing market activity early in the year. The Budget Division is projecting growth in construction employment of 0.9 percent for 2007, following growth of 2.8 percent for 2006. Indeed, an even greater weakening of construction employment growth might have been expected were it not for strong anticipated levels of activity in the commercial building sector, particularly downstate. The housing market slowdown is estimated to have had a significant negative impact on real estate, rental, and leasing employment in 2006, with growth projected to remain low for 2007. Following growth of 0.2 percent in 2006, employment in this sector is projected to grow 0.5 percent in 2007, compared with 0.8 percent growth projected for the nation as a whole.

Figure 44

Construction and Real Estate

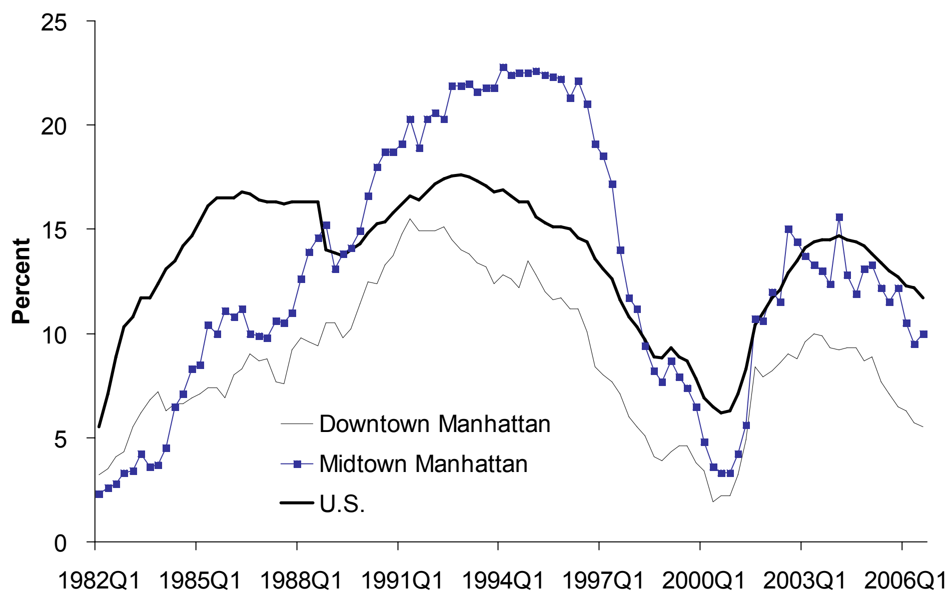


Source: NYS Department of Labor; DOB staff estimates.

Construction employment has been increasing steadily since the first half of 2004. Consequently, this sector's index of net job creation has been above 100 percent since the second quarter of 2004. Contributing to continued increases in the number of construction jobs over the longer term will be reconstruction on the site of the World Trade Center, as well as multi-year subway and stadium building projects. Finally, continued declines in office vacancy rates in both downtown and midtown Manhattan also support the expectation that commercial construction will remain strong in 2006 (see Figure 45). Thus, New York State is expected to see growth in construction employment in 2007, compared with a 1.9 percent decline projected for the nation.

Regional data indicate that the recent housing sector boom did not affect construction employment uniformly across the State's regions. Indeed, for the New York City, Central New York, Western New York, and Finger Lakes regions, construction employment for the second quarter of 2006 was still below the level for the same quarter in 2000. In contrast, the Long Island, Hudson Valley, and North Country regions saw double-digit increases in construction jobs over the same period. Moreover, for Long Island, the Hudson Valley, and the Capital District, the regional share of total State construction employment exceeded the regional share of total employment for the second quarter of 2006, an indication of the strength of the housing boom in those areas.

Figure 45
Office Vacancy Rates



Source: Moody's Economy.com.

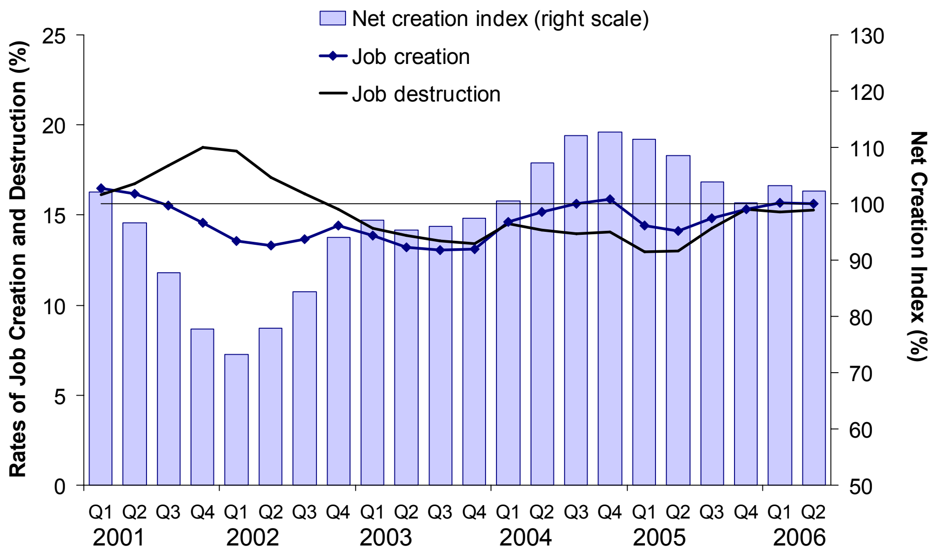
Trade, Transportation, and Warehousing

The retail trade, wholesale trade, and transportation and warehousing sectors are among the more cyclically sensitive industrial sectors. These industries were all hit hard during the 2001-2003 recession and are showing the effects of the current slowdown as well (see

Figure 46). Moreover, employment in all of these sectors remains below their pre-recession peaks, although after growing more than 1.0 percent per year in 2004 and 2005, retail trade employment is approaching that peak.

Figure 46

Trade, Transportation, and Warehousing



Source: NYS Department of Labor; DOB staff estimates.

Employment in the wholesale trade sector is estimated to have grown a weak 0.2 percent in 2006, with growth projected to rebound to only 0.5 percent for 2007. The wholesale trade sector was dominated by job declines from early 2001 through the first quarter of 2004, but began to experience net growth by the second quarter of 2004. For 2004 as a whole, the sector added 2,100 jobs, producing growth of 0.6 percent, followed by yet another decline of 0.4 percent for 2005. For the first half of 2006, wholesale employment fell again. With either declining or flat net rates of job creation from 2004Q4 through 2005Q4 and very little improvement in 2006, wholesale trade is expected to be a weak contributor to State job growth in 2007.

Retail trade is estimated to have grown 0.1 percent for 2006, with growth projected to improve only slightly to 0.3 percent for 2007. In the retail trade sector, the job gap narrowed significantly during the second half of 2002 and remained small in 2003. From the first quarter of 2004 through the second quarter of 2005, this sector's job creation index was well above 100 percent, but a slowdown became well entrenched by the end of 2005, with the net index falling below 100 percent by 2006Q2. This result lends support to the expectation that retail trade will not contribute greatly to State job growth for 2007.

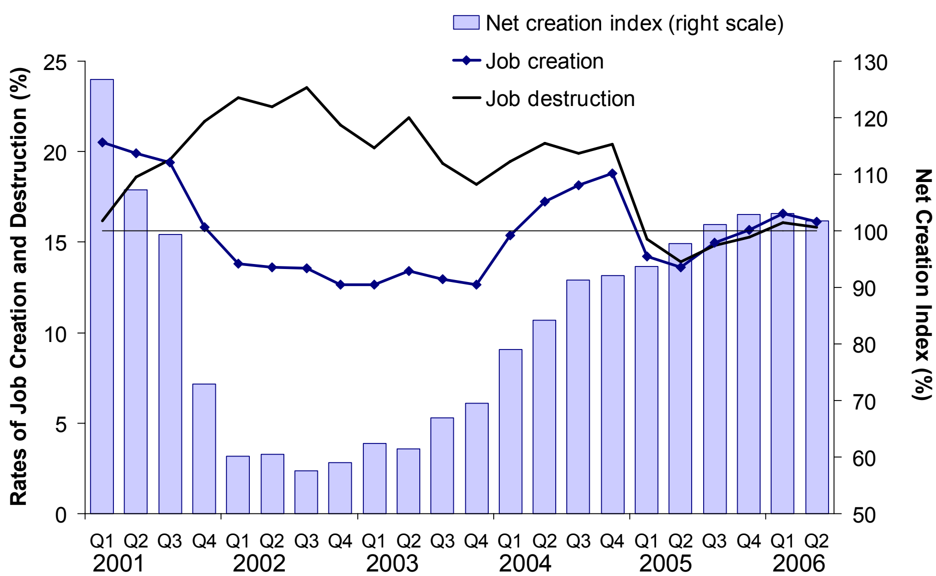
Transportation and warehousing employment is projected to increase 0.8 percent in 2007, following estimated growth of 2.0 percent for 2006. The impact of September 11 on employment is perhaps seen most dramatically in the transportation sector. The job gap in that sector was at its maximum during the first quarter of 2002, but has gradually narrowed since then, due primarily to a decline in the gross rate of job destruction. Although high energy costs were likely to have been a restraining factor restraining for this sector in 2005, the sector experienced something of a rebound in 2006. However, the overall slowdown in the State economy, and the weakness in the trade sector in particular, support the likelihood of slower growth in this sector for 2007.

Information (Media and Communications)

The information sector, which includes publishing, motion pictures, broadcasting, and telecommunications, was among the hardest hit in the State during the last recession and among the last to recover (see Figure 47). Following five consecutive years of employment declines from 2001 through 2005, the information sector is estimated to have experienced weak growth of 0.4 percent in 2006. The State and national slowdown is expected to contribute to slightly weaker growth of 0.2 percent for 2007. It could take many years for this sector to attain its pre-recession employment peak.

Figure 47

Information



Source: NYS Department of Labor; DOB staff estimates.

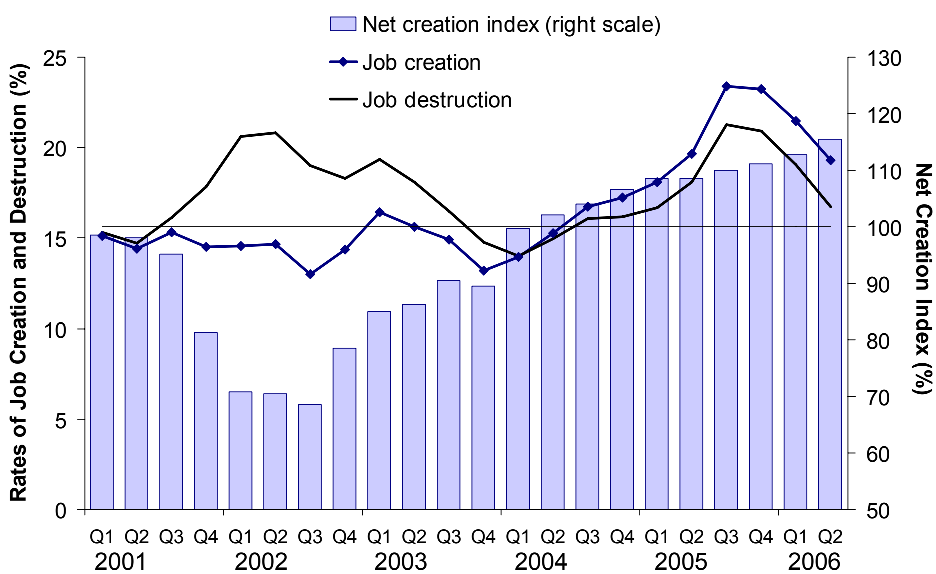
Following the collapse of the "dot-com" sector in 2000 and 2001, the State's media services and telecommunications industries shed jobs at the highest rate of any sector. Employment in the information sector declined 8.8 percent, representing a loss of 28,500 jobs in 2002, and the job gap remained wide through the first half of 2005. Between the first half of 2005 and the first half of 2006, the information sector gained about 1,600 jobs overall, with half of the industries in this sector gaining jobs and the other half continuing to lose. The motion picture industry added the most jobs within this sector, adding 3,000 during the period, while the much smaller internet publishing and broadcasting industry grew the fastest. Despite its slow recovery, the information sector is one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages. It is also the most regionally concentrated, with almost 60 percent of State employment in this sector located in New York City.

Finance and Insurance

The finance and insurance sector has remained a bright spot for State economic growth. Strong revenue and profit performances on Wall Street resulted in high rates of job growth in this sector of 1.9 percent for 2005 and estimated growth of 2.2 percent for 2006. As a result of the impact of the State and national economic slowdown, the Budget Division projects growth of 1.0 percent for this sector for 2007, slightly above the average for the private sector as a whole. Finance and insurance sector employment is not expected to attain its pre-recession peak during the forecast period through 2010. Indeed, in the aftermath of the stock market crash of 1987 and the recession of 1990-91, it took ten years for the securities industry to return to its employment peak of 1987.

Figure 48

Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

The attacks of September 11, the 2001 national recession, and corporate governance scandals all combined to have a significant impact on the State's financial sector during the last recession. As a result, 29,800 finance and insurance jobs were lost in 2002, a decline of 5.4 percent. As expected, an overwhelming proportion of these losses occurred in New York City. This trend continued in 2003, with finance and insurance losing another 11,000 jobs. However, these job losses lowered industry compensation costs and helped Wall Street firms to increase profits significantly in 2003. The net job creation index for finance and insurance became positive in 2004 and has continued to climb ever since. In addition, with gross rates of job creation and destruction climbing to the 20 percent range in 2005, the finance and insurance sector has become one of the State's most dynamic sectors (see Figure 48). These developments suggest continued, albeit slower growth in 2007 for this sector. Nevertheless, projected finance and insurance employment for 2007 is 3.2 percent below the sector's 2000 pre-recession peak and 12.5 percent below its historical 1987 peak.[18]

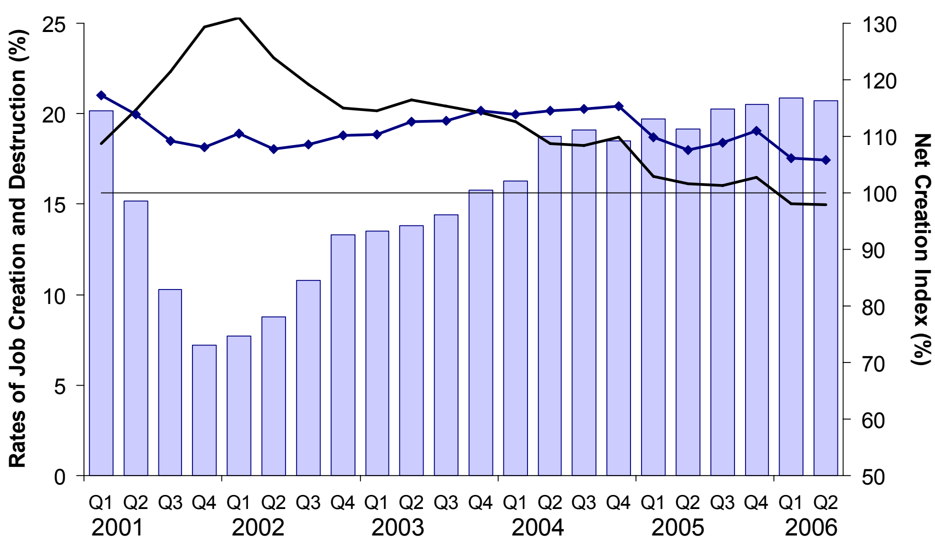
[18] The finance and insurance sector is not projected to reach its pre-recession peak at any point during the forecast horizon, while the remainder of the State employment is expected to do so this year.

Business and Professional Services

The State's business and professional services industries — which include legal, accounting, architectural, engineering, advertising, technical, management, and other business support services — benefited greatly from the strength of the national economy in 2005 and 2006, particularly the strong growth in corporate profits (see Figure 49). Professional and technical services employment is estimated to have grown 3.7 percent in 2006, following 2.7 percent growth in 2005. The slowdown in national output and profit growth is projected to bring job growth in this sector down to a still robust 1.8 percent for 2007. Similarly, job growth in the management and administrative support services industries is expected to slow to 0.8 percent in 2007, following 1.0 percent growth in 2006.

Figure 49

Professional and Business Services



Source: NYS Department of Labor; DOB staff estimates.

With the collapse of the high-tech bubble, the State's professional, scientific, and technical services industries saw a significant increase in the rate of gross job destruction during 2001 and early 2002. However, the job gap in this sector narrowed substantially during the first three quarters of 2003, with the net index rising above 100 percent by the fourth quarter. The industry has continued to produce net job growth since then, with the gross rate of job destruction trending ever downward, supporting the forecast for continued but slower growth. The professional, scientific, and technical services industry is one of the few sectors that have surpassed their pre-recession peaks, though not necessarily in every region. Sector employment levels for the New York City, Southern Tier, and Finger Lakes regions were still below their 2000Q2 peaks as of the second quarter of 2006. Nevertheless, New York City still retains a disproportionately large share of the State's jobs in this sector — 56 percent.

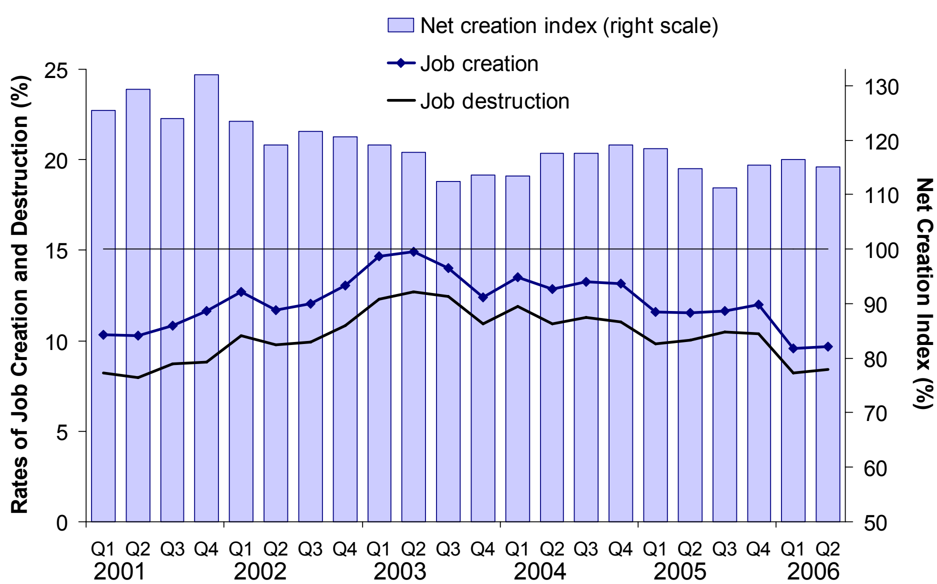
The gross rate of job destruction rose swiftly in the management, administrative, and support services sectors in 2001, but the job gap had narrowed significantly by the fourth quarter of 2002. The job gap continued to narrow in 2003, which resulted in positive net job creation in 2004 and the first half of 2005. Management services growth may have been stymied by the desire to avoid expanding management operations in New York City in the wake of September 11, accelerating the decline in the number of corporate headquarters located in the State. This sector also contains temporary help services, one of the first employment classes to grow following a downturn, and helps to explain the substantial improvement in this sector between 2003 and 2004. Many firms hire temporary workers coming out of a recession, uncertain as to whether an increase in the demand for their products will be sustained, contributing to the high job turnover rate in this sector, as well as its cyclical sensitivity. Temporary help services employment grew 6.1 percent in 2004, the first full year of the State's current expansion, compared to 0.8 percent growth for the private sector as a whole. In contrast, industry growth fell to 3.1 percent in 2005 and was flat for the first half of 2006 compared to the first half of 2005, perhaps yet another indicator that the labor market is slowing.

Education and Health Care

These two sectors have exhibited consistent strength, even throughout the last recession (see Figure 50). Together, the private education, and health care and social assistance sectors are expected to add 24,400 new jobs in 2007.

Figure 50

Education, Health Care, and Social Assistance



Source: NYS Department of Labor; DOB staff estimates.

The health care industry is the larger of the two, employing an estimated total of 1,184,000 workers in 2006. The private education sector employs about 273,000, as it excludes the more than 600,000 workers employed at public sector educational institutions. Since neither of these sectors exhibits a significant degree of cyclical sensitivity, both are expected to exhibit growth well above the average for the private sector as a whole. Private education employment is projected to rise 1.9 percent for 2007, following estimated growth of 1.8 percent for 2006, while health care and social assistance employment is projected rise 1.6 percent in 2007, following estimated growth of 1.3 percent for 2006.

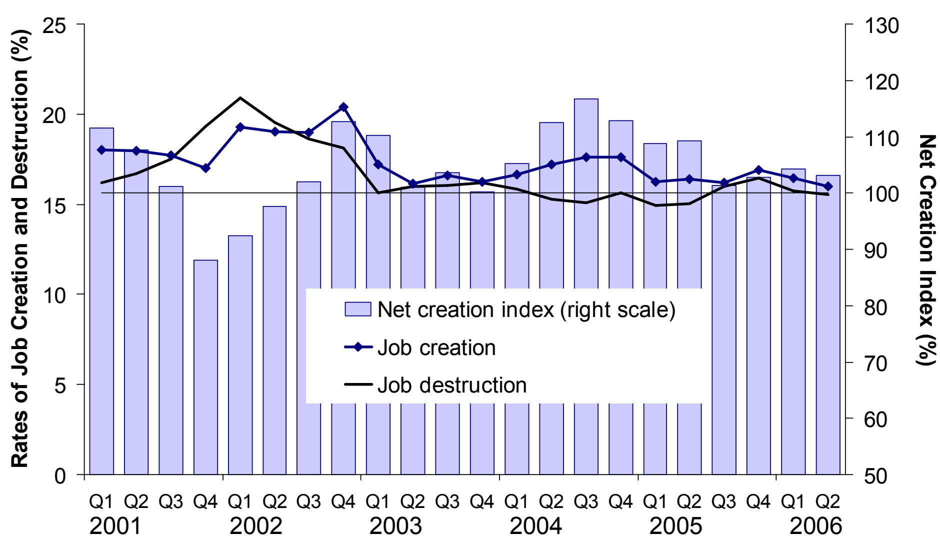
Every region except for the Mohawk Valley and Central New York experienced double-digit employment growth in the private education sector between 2000Q2 and 2006Q2. The strongest growth was in the Finger Lakes and North Country regions, with growth of 32.9 percent and 24.2 percent, respectively. The health and social services sector also produced strong job gains in every region in the State during the period, including double digit gains in (in descending order) the North Country, the Mohawk Valley, Long Island, New York City, and Central New York.

Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to grow 0.8 percent in 2007, following estimated growth of 0.6 percent in 2006. September 11 had a severe impact on this sector, particularly the arts, entertainment, and other tourism-related industries. The gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter (see Figure 51).

Figure 51

Leisure, Hospitality, and Other Services



Source: NYS Department of Labor; DOB staff estimates.

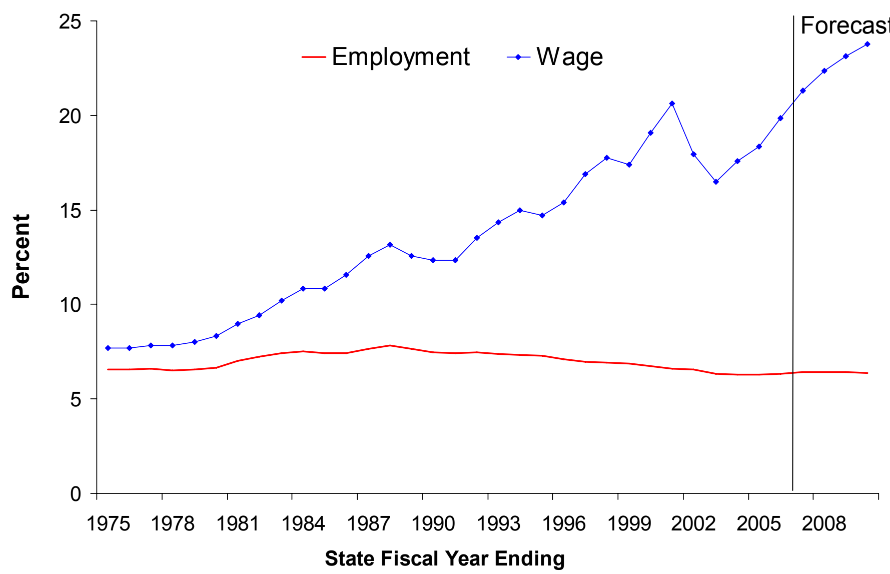
Although the net job creation index has remained above 100 percent since the first quarter of 2004, growth has fallen since the fourth quarter of 2004. This has been largely due to a decline in the rate of job creation rather than a consistent increase in job destruction, supporting the expectation that the sector will continue to add jobs in 2007. The slowdown in both domestic and global economic growth will contribute to a slowing of growth in this sector, though a weakened U.S. dollar should provide a countervailing force going forward.

The Securities Industry and the Stock Market

Because of the prominence of New York City in the world of finance, New York State revenues are profoundly affected by the fortunes of the financial markets. Figure 52 shows how finance and insurance sector wages have grown over time on a State fiscal year basis as a share of the State total. That share peaked at 20.6 percent during 2000-01, just as the stock market was beginning to collapse. After several years of recovery on Wall Street, it is estimated that the finance and insurance sector's wage share will have surpassed its prior record by the end of the current fiscal year. In contrast to its large wage share, finance and insurance sector employment is estimated to account for only 6.4 percent of total State employment for the current fiscal year, still below its pre-recession share of 6.6 percent for 2000-01.

Figure 52

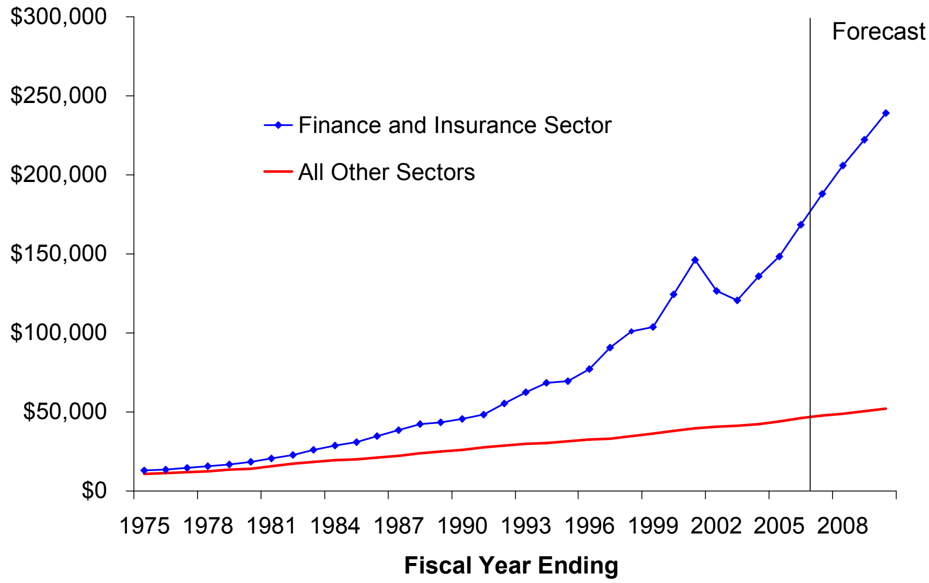
Finance and Insurance Sector Employment and Wages as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

The financial markets affect employment and income in New York City and its surrounding suburbs, both directly — through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly— as finance sector workers spend their incomes on housing, entertainment, other purchases, and so on. Finance sector workers are, on average, very highly compensated, as demonstrated by a comparison of their average wages to those of other New Yorkers. In the 1979-80 State fiscal year, the average finance and insurance sector wage was only 27 percent higher than the average wage for the rest of the State economy. But for 2006-07, that gap is estimated to have grown to 295 percent, and as indicated in Figure 53, is expected to continue to widen. Between 1979-80 and 2006-07, total finance and insurance industry wages increased more than tenfold, while employment rose by only 14 percent. For the rest of the economy, total wages in 2006-07 were not even four times what they were in 1979-80, while employment grew 19 percent.

Figure 53
Average Wages in New York



Source: NYS Department of Labor; DOB staff estimates.

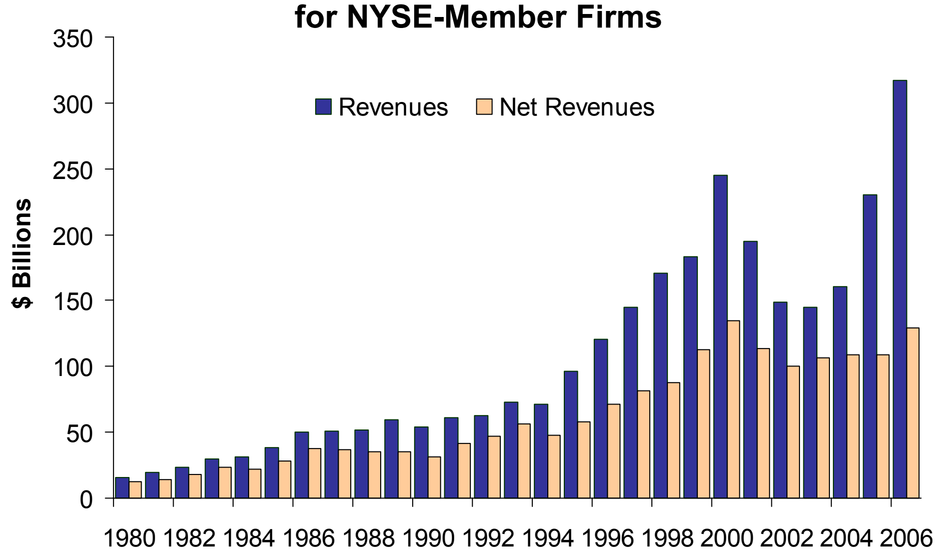
Equity prices, as represented by Standard and Poor's Index of 500 common stocks (S&P 500), rose 8.4 percent on an annual average basis in 2006, but increased 13.6 percent from year-end 2005 to year-end 2006. The market started to gain momentum soon after the Federal Reserve ended its cycle of monetary tightening in August of last year. Initial public offerings (IPOs) grew 9.5 percent in 2006. The value of mergers and acquisitions increased a strong 25 percent last year due to a wave of industrial consolidation. This wave was sparked by firms attempting to improve their positions within the global marketplace, and having plenty of cash with which to finance the attempt. Proprietary trading activity has also been very strong, generating earnings growth of 66.6 percent for 2006, based on the first three quarters of data.

Strong equity market activity, along with robust demand for bond underwriting services, fueled revenue growth of 36.2 percent for New York Stock Exchange member-firms for the first three quarters of 2006, compared to the same period in 2005 (see Figure 54). However, with the increase in short-term interest rates starting in 2004, finance sector firms have also seen increases in their interest expenses along with increased revenues. As illustrated in Figure 54, the growth in interest expenses has restrained the growth in industry revenues less these expenses, or net revenues. Industry data indicate that year-ago growth in net revenues peaked in the first quarter of 2006.

Since so many securities industry firms are headquartered in New York City, their most profitable activities tend to also be concentrated in the City. Hence, a large portion of securities industry wages are paid to employees who work in the City. As reported below, this season's bonus payments for New York City-based workers are expected to be very strong.

Figure 54

Securities Industry Revenues for NYSE-Member Firms



Note: Estimate for 2006 is based on three quarters of data annualized.
Net revenues exclude interest expenses.
Source: Securities Industry and Financial Markets Association.

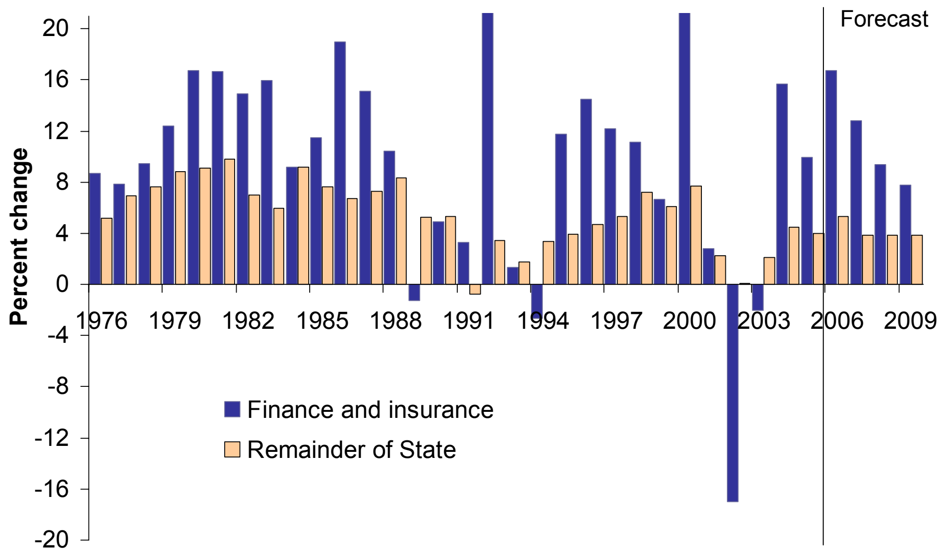
Outlook for State Income

Growth in average wages and employment are expected to result in total wage growth of 5.7 percent for 2007, following an estimated increase of 7.5 percent for 2006. State wage growth has largely been led by the finance and insurance sector in recent years (see Figure 55). The strong growth in State wages, property income, and proprietors' income projected for 2007 will result in total personal income growth of 5.6 percent, following 6.8 percent growth for 2006.

Because the state-level wage data published by the U.S. Bureau of Economic Analysis have proven unsatisfactory for the purpose of forecasting State personal income tax liability and other taxes, the Budget Division constructs its own wage and personal income series based on QCEW data. Moreover, because of the importance of trends in variable income — composed of stock-related incentive income and other one-time bonus payments — to the understanding of trends in State wages overall, the Budget Division has developed a methodology for decomposing its wage series into bonus and nonbonus wages. For a detailed discussion, see Box 6 and Box 7. The Budget Division's outlook for State income is based on these constructed series.

Figure 55

New York State Wage Growth
Finance and Insurance vs. Remainder of State



Source: NYS Department of Labor; DOB staff estimates.

Variable Income Growth

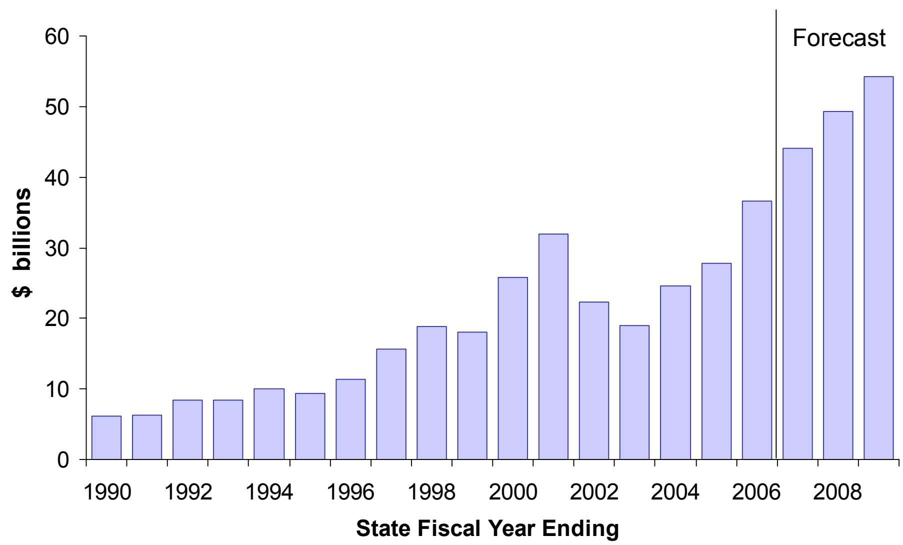
Variable income is defined as that portion of wages derived primarily from bonus payments and stock incentive income, but also includes other one-time payments. As performance incentives for a given calendar year, firms tend to pay employee bonuses during either the fourth quarter of that year or the first quarter of the following year. Although restricted stocks counted as a significant part of a bonus package during the same quarters as the cash component, an employee does not own them until they are vested. However, the concentration of variable income payments in the fourth and first calendar-year quarters makes the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.[19] State variable income, as forecast by the Budget Division, is projected to rise 16.7 percent and 9.1 percent for the 2006-07 and 2007-08 fiscal years, respectively. Growth in both years is more than accounted for by the finance and insurance sector, although bonus income in other sectors is expected to increase as well.

Since 1990, there has been a substantial shift in the State's corporate wage structure away from fixed-pay to performance-based pay. Figure 56 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since the early 1990s. The robust performance of security industry profits during 1999 and 2000 resulted in finance and insurance sector bonus growth of 43.5 percent and 23.7 percent in the 1999-2000 and 2000-01 State fiscal years, respectively, to levels that accounted for more than half of total bonuses paid in the State. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits. For example,

[19] See Box 6 for a more detailed discussion of bonus estimation.

when NYSE-member firm profits fell from $10.4 billion in 2001 to $6.9 billion in 2002, finance and insurance sector bonus income is estimated to have fallen 14.9 percent for the 2002-03 State fiscal year. In contrast, nonbonus wages for this sector are estimated to have fallen only 6.6 percent, mainly due to the decline in employment.

Figure 56
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

The rapid run-up in finance and insurance bonuses was abruptly reversed during the 2001-02 State fiscal year when bonuses dropped 30.2 percent as a result of the national recession, the World Trade Center terrorist attack, and the fall in equity prices. Securities industry profits further deteriorated in 2002, dropping 67 percent from their record 2000 level. The industry has since recovered from this low. As stated in the securities market discussion above, recent increases in debt underwriting, proprietary trading, and mergers and acquisitions resulted in revenue growth for NYSE-member firms of 38.1 percent, based on the first three quarters of 2006 annualized, although net revenue growth is estimated to have grown only 18.5 percent. In addition to the strong growth in the value of announced merger and acquisition deals and IPO issuances cited above, the value of debt underwriting is estimated to have reached an all-time high of $3.1 trillion in 2006, a 3.7 percent increase from 2005.

Based on these trends, the Budget Division projects that variable income for the finance and insurance sector will grow from $36.6 billion for the 2005-06 State fiscal year to $44.0 billion for 2006-07, or 20.5 percent. The projected level for 2006-07 is 38 percent above the level reached during 2000-01, which was tied to profits earned at the height of the high-tech/equity market bubble. The 2006-07 forecast implies that variable compensation paid by the State finance and insurance sector will reach yet another record high, despite the fact that net industry revenues for 2006, based on three quarters of data annualized, are estimated to be 4.3 percent below their 2000 peak. The main reason for this apparent inconsistency is the increasing concentration of the industry's most highly profitable operations in New York City.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven by changes in employment and the nonbonus average wage, and are therefore relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage. However, State real average wages can deviate from their long-run trend due to short-term fluctuations related to business cycles or shocks to the regional economy. Nonbonus average wages are projected to increase by 3.8 percent in calendar 2007, following estimated growth of 3.6 percent for 2006. With positive growth from employment, total nonbonus wages are projected to grow 4.6 percent for 2007, following an increase of 4.4 percent for 2006.

Average Wages and Inflation

Average wage growth of 5.0 percent is projected for 2007, following estimated growth of 6.6 percent for 2006. The Budget Division projects growth in the composite CPI for New York of 2.5 percent for 2007, following growth of 3.6 percent for 2006. The projected decline in inflation for New York for 2007 parallels that for the nation.

Nonwage Income

The Division of the Budget projects a 5.4 percent increase in the nonwage components of State personal income for 2007, following growth of 5.8 percent for 2006. For 2007, stronger growth in proprietors' income will be offset by slower growth in property and transfer income.

Risks to the New York Forecast

In addition to the risks described above for the national forecast, there are risks specific to New York. The chief risk remains another attack targeted at New York City that could once again plunge the State economy into a recession, resulting in substantially lower income and employment growth than is reflected in the current forecast. Higher energy prices and the potential for greater pass-through to core inflation, combined with a tightening labor market, would raise the probability that the Federal Reserve could tighten one more time. Such an outcome could negatively affect the financial markets, which would also disproportionately affect the New York State economy. In addition, the State's real estate market could decline more than anticipated, which would negatively affect household consumption and taxable capital gains realizations. These effects could ripple though the economy, affecting both employment and wages.

In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities is possible, resulting in higher wage and bonuses growth than projected. It is important to recall that the financial markets, which are so pivotal to the direction of the downstate economy, are notoriously difficult to forecast.

BOX 6
THE CONSTRUCTION OF NEW YORK STATE WAGES AND THE ESTIMATION OF VARIABLE INCOME

Trends in State wages are critical to an accurate analysis and forecast of personal income tax liability and collections. To improve the link between the economic and tax variables on a quarterly basis, the Division of the Budget (DOB) constructs its own wage series from the available primary data sources. This series differs from the data published by the U.S. Bureau of Economic Analysis (BEA).

The DOB uses only New York data to construct its State wage series. The primary source is data collected under the Quarterly Census of Employment and Wages (QCEW) Program. In contrast, the BEA uses national information to adjust the quarterly values for seasonal variation, as well as to ensure that state-level wages add up to national estimates. The consequence is often a significant difference between the two series in both the quarterly pattern and the annualized growth rates. For example, according to staff estimates based on the QCEW data, wage growth rates for the first and second quarters of 2000, on a percent-change-year-ago basis, were 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 6.1 percent and 9.9 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

A comparison with yet another source of wage data also demonstrates the greater accuracy of the QCEW data. Since the amount of wages withheld for personal income tax purposes varies systematically with wages itself, withholding data provide a useful guide for estimating State wage growth. For example, wages withheld during the first quarter of 2000 were 18.6 percent above withholding for the same quarter of the previous year. This estimate is much more consistent with the growth rate derived from the QCEW data than with the BEA's estimate of 2.4 percent.

Once an entire year of QCEW data becomes available, the BEA revises its state-level wage data to be more consistent with that data source. For this reason, DOB's method performs well in anticipating the BEA's revised estimates of annual growth in New York wages. To make the actual magnitudes of the Division's wage series more strictly comparable to the BEA wage series, noncovered and unreported legal wages must be added to wages taken directly from the QCEW data. The addition of these components typically changes the annual growth rate for State wages by no more than two-tenths of one percentage point.

An increasing portion of New York State wages is paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. Because no government agency collects data on variable income as distinct from ordinary wages, it must be estimated. DOB derives its bonus estimate from firm-level data collected under the QCEW program. This method allows a large degree of flexibility as to when individual firms actually make variable income payments. However, as with any estimation method, some simplifying restrictions are necessary. DOB's method incorporates the assumption that each establishment makes variable income payments during at most two quarters of the year. However, the determination as to which quarters contain these payments is made at the firm level.

Firms report their wages to the QCEW program on a quarterly basis. A firm's average wage per employee is calculated for each quarter. The average over the two quarters with the lowest average wages is assumed to reflect the firm's base pay, that is, wages excluding variable pay. If the average wage for either of the remaining quarters is significantly above the base wage, then that quarter is assumed to contain variable income.[1] The average variable payment is then defined as total average wage minus the base average wage, after allowing for an inflation adjustment to base wages. Total variable pay is then calculated by multiplying the average bonus payment by the total number of firm employees. It is assumed that only private sector employees earn variable pay.

[1] The threshold adopted for this purpose was 25 percent. However, the variable income estimates are fairly robust to even a five-percentage-point swing in this criterion.

BOX 7
THE NEW YORK STATE DIVISION OF THE BUDGET
NEW YORK MACROECONOMIC MODEL

DOB's New York Macroeconomic model (DOB/N.Y.) attempts to capture the fundamental linkages between the New York and the national economies.[1] Clearly, New York's economy depends on economic developments in the U.S. economy, usually expanding when the national economy is growing and contracting when the nation is in recession. However, this relationship is neither simple nor static. The growth rate of the State's economy can vary substantially in comparison to the nation. For example, during the 1990-91 national recession, the State's recession began noticeably earlier and ended significantly later than for the nation as a whole. Alternatively, during the early 1980s recession, the State's economy fared better than the nation.

The objective of DOB/N.Y. is to quantify the linkages between the national and State economies within an econometric modeling framework. DOB/N.Y. is a structural time series model with most of the exogenous variables derived from DOB/U.S. In general, the long-run equilibrium relationships between State and national economic variables are captured by a cointegration/error-correction specification, while the State's specific dynamics are modeled using a restricted vector autoregressive (RVAR) framework. DOB/N.Y. has four major components: a nonfarm payroll employment segment, a real nonbonus average wage segment, a bonus payment segment, and a nonwage income segment.

Employment

The national economy affects New York employment through two channels. First, if State employment growth for a specific sector is related to the growth of the U.S. employment in the same sector, U.S. employment for that sector is specified as an exogenous variable in the equation. Second, overall U.S. economic conditions, as measured by the growth of real U.S. GDP, is included either directly in the employment equations for some sectors or indirectly through the VAR relationships.

Intra-sectoral relationships for New York employment can be different from those for the nation as a whole. These relationships are captured in a restricted VAR model where the impact of one sector on other sectors is explicitly specified.

Average Real Nonbonus Wages

Our analysis suggests the existence of a long-run equilibrium relationship between real nonbonus average wage for most New York sectors and the national real average wage. Thus, the State average real nonbonus wage by sector is modeled in a cointegration/error-correction framework. This modeling approach is based on the belief that, since both labor and capital are free to move in a market economy, regional differences in labor costs tend to converge toward their long-run equilibrium values, though this process may take quite a long time. This formulation allows for short-run adjustments towards equilibrium, which describe the short-run dynamics of State-specific economic conditions.

Bonus Income

The DOB model for finance and insurance bonus income incorporates those factors that drive Wall Street profits: merger and acquisition activity, IPOs, and the volume of debt underwriting. Our analysis shows that bonuses paid in the State's other economic sectors tend to have long-term equilibrium relationships with those paid in the finance and insurance sectors; more technically, bonus payments in the financial services sector are cointegrated with bonuses paid in most other sectors. Consequently, the results from the finance and insurance sector bonus model are used to estimate bonuses paid in other sectors.

Nonwage Incomes and Other Variables

The New York nonwage components, except for the residence adjustment, are all driven by their national counterparts. The relationship is modeled as a change in the New York variable, as a function of a change in the U.S. nonwage counterpart, along with lags of the independent and dependent variables as appropriate to account for short-term fluctuations.

[1] For more information, see *2006-07 New York State Executive Budget — Economic and Revenue Outlook: Analysis and Methodology*, pp. 409-415.

TABLE 4

NEW YORK STATE PRIVATE EMPLOYMENT BY INDUSTRY

	Employment in Thousands					Percent Change				
INDUSTRY	**2002**	**2003**	**2004**	**2005**	**2006***	**2002**	**2003**	**2004**	**2005**	**2006***
Mining and Manufacturing	653.4	614.5	598.2	583.8	569.9	(7.2)	(6.0)	(2.6)	(2.4)	(2.5)
Construction and Real Estate	496.6	495.3	501.6	506.0	500.6	(2.7)	(0.3)	1.3	0.9	2.3
Trade, Trans., and Warehousing	1,424.7	1,417.8	1,434.2	1,445.5	1,434.6	(3.0)	(0.5)	1.2	0.8	0.4
Information	295.4	275.4	268.2	267.8	266.3	(8.8)	(6.8)	(2.6)	(0.2)	0.4
Finance and Insurance	524.8	513.8	516.3	526.0	533.5	(5.4)	(2.1)	0.5	1.9	2.5
Business and Professional Svs.	1,045.7	1,037.2	1,052.9	1,076.7	1,087.2	(4.0)	(0.8)	1.5	2.3	2.5
Education and Health Care	1,362.5	1,388.7	1,415.4	1,437.0	1,454.0	2.2	1.9	1.9	1.5	1.3
Leisure, Hospitality, and Other Svs.	948.4	953.8	971.5	979.6	967.2	0.2	0.6	1.9	0.8	0.6
Other **	97.6	104.5	97.9	104.8	106.5	11.5	7.1	(6.3)	7.0	4.7
Statewide	6,848.9	6,801.0	6,856.3	6,927.1	6,919.7	(2.4)	(0.7)	0.8	1.0	1.1

* Levels for 2006 are based on the first two quarters of the year; 2006 growth rates are relative to the same period in 2005.

** Includes agriculture, utilities, and unclassified firms.

TABLE 5

NEW YORK STATE PRIVATE EMPLOYMENT BY REGION

	Employment in Thousands					Percent Change				
REGION	**2002**	**2003**	**2004**	**2005**	**2006***	**2002**	**2003**	**2004**	**2005**	**2006***
New York City	2,907.7	2,877.4	2,896.5	2,945.9	2,980.9	(3.6)	(1.0)	0.7	1.7	2.1
Long Island	988.8	995.1	1008.6	1015.2	1005.7	(0.6)	0.6	1.4	0.7	0.4
Mid Hudson	700.8	704.2	716.0	722.4	715.1	(0.3)	0.5	1.7	0.9	0.2
Capital Region	372.5	377.4	381.8	385.3	382.0	(0.9)	1.3	1.2	0.9	0.7
Mohawk Valley	135.3	131.3	131.6	132.0	130.2	(1.2)	(2.9)	0.3	0.3	0.4
North Country	105.9	105.5	105.8	106.5	105.7	(0.2)	(0.3)	0.3	0.7	1.8
Central New York	281.5	281.0	283.0	284.3	280.8	(2.3)	(0.2)	0.7	0.5	0.1
Southern Tier	237.4	232.9	233.4	235.1	234.0	(3.2)	(1.9)	0.2	0.7	0.7
Western New York	515.3	511.1	514.5	513.9	508.2	(1.2)	(0.8)	0.7	(0.1)	(0.2)
Finger Lakes	454.4	451.8	454.0	457.2	450.8	(2.8)	(0.6)	0.5	0.7	(0.2)
Unclassified	149.5	133.4	131.2	129.2	126.2	(8.8)	(10.8)	(1.7)	(1.5)	1.1

* Levels for 2006 are based on the first two quarters of the year; 2006 growth rates are relative to the same period in 2005.

TABLE 6

REGIONAL EMPLOYMENT SHARES BY INDUSTRY

REGION	**Mining/ Manuf.**	**Constr. & Real Estate**	**Trade, Trans. & Wareh.**	**Info.**	**Finance and Insurance**	**Bus. & Prof. Svs.**	**Educ. & Health Care**	**Leisure, Hosp. & Other Svs.**	**Other**
New York City	3.7	7.7	17.4	5.1	11.0	18.1	22.1	13.8	1.3
Long Island	8.4	8.2	25.2	2.7	6.0	15.2	18.8	14.0	1.5
Mid Hudson	8.4	8.9	23.7	3.1	4.8	13.1	21.6	14.6	1.9
Capital Region	8.6	6.9	22.9	3.1	5.8	14.6	21.1	15.6	1.4
Mohawk Valley	15.4	4.8	24.6	3.1	6.1	8.1	22.9	13.8	1.1
North Country	13.6	6.6	25.9	1.9	2.6	6.9	22.7	17.2	2.6
Central New York	13.7	6.3	23.9	2.3	5.0	12.7	19.0	14.9	2.2
Southern Tier	18.9	4.9	20.2	2.0	4.0	9.5	24.7	14.1	1.6
Western New York	15.9	5.8	22.1	2.0	5.7	13.5	18.4	15.3	1.2
Finger Lakes	18.8	5.7	19.9	2.6	3.4	13.2	20.7	13.6	2.0
Statewide	8.3	7.3	20.8	3.9	7.6	15.7	20.8	14.1	1.5

Note: Shares are based on the period from 2005Q3 through 2006Q2.

TABLE 7

REGIONAL EMPLOYMENT TRENDS: 2002-2006

Region	Employment (000's)					Percent Growth				
	2002	2003	2004	2005	2006*	2002	2003	2004	2005	2006*
Manufacturing and Mining										
New York City	138.4	126.2	119.9	113.3	106.0	(10.4)	(8.8)	(5.0)	(5.5)	(6.8)
Long Island	91.2	87.3	87.2	86.2	85.0	(7.1)	(4.3)	(0.1)	(1.1)	(1.7)
Mid Hudson	67.2	64.5	62.7	61.6	60.7	4.0	(4.1)	(2.7)	(1.8)	(1.7)
Capital Region	34.8	33.0	33.2	33.3	33.0	(7.4)	(5.1)	0.6	0.3	(0.2)
Mohawk Valley	22.7	21.5	21.4	20.8	20.2	(8.7)	(5.6)	(0.3)	(2.9)	(3.7)
North Country	16.5	16.2	15.2	14.6	14.6	(3.8)	(2.0)	(6.3)	(3.5)	(0.3)
Central New York	44.4	41.2	39.4	39.1	38.7	(7.2)	(7.3)	(4.2)	(0.9)	(0.7)
Southern Tier	47.0	44.0	44.2	44.3	44.5	(9.6)	(6.3)	0.5	0.1	1.1
Western New York	92.6	88.3	85.8	82.9	81.1	(7.5)	(4.7)	(2.8)	(3.3)	(2.7)
Finger Lakes	96.4	91.3	87.9	86.5	85.0	(8.1)	(5.3)	(3.7)	(1.6)	(1.3)
Unclassified	2.1	1.1	1.3	1.2	1.1	4.0	(47.7)	19.7	(9.8)	(10.9)
Statewide	653.4	614.5	598.2	583.8	569.9	(7.2)	(6.0)	(2.6)	(2.4)	(2.5)
Construction and Real Estate										
New York City	222.9	221.6	221.9	225.4	226.6	(4.1)	(0.6)	0.1	1.6	2.3
Long Island	79.1	78.8	81.4	81.9	82.0	1.3	(0.4)	3.4	0.6	3.3
Mid Hudson	59.5	61.0	61.8	63.4	62.7	(2.2)	2.6	1.2	2.5	2.9
Capital Region	24.9	25.7	26.4	26.5	25.8	(2.5)	2.9	2.9	0.5	2.0
Mohawk Valley	6.3	6.3	6.4	6.4	5.8	2.3	1.1	1.0	(0.0)	(1.1)
North Country	7.1	6.7	6.9	7.0	6.8	(2.0)	(4.9)	3.4	0.2	5.8
Central New York	17.3	17.6	17.6	17.6	17.1	(2.8)	1.8	0.2	(0.1)	3.9
Southern Tier	11.4	11.3	11.3	11.5	10.9	(4.3)	(1.0)	0.3	1.4	1.9
Western New York	29.5	28.9	30.0	29.6	28.3	(1.6)	(2.1)	3.9	(1.5)	1.7
Finger Lakes	26.2	25.9	26.5	26.6	24.6	(5.6)	(1.1)	2.3	0.5	(3.6)
Unclassified	12.4	11.4	11.3	10.1	10.1	(2.0)	(7.9)	(0.8)	(10.6)	4.7
Statewide	496.6	495.3	501.6	506.0	500.6	(2.7)	(0.3)	1.3	0.9	2.3
Trade, Transportation, and Warehousing										
New York City	503.2	499.6	507.7	512.8	516.8	(4.1)	(0.7)	1.6	1.0	2.0
Long Island	252.8	255.5	257.0	256.5	252.7	(1.9)	1.1	0.6	(0.2)	(0.5)
Mid Hudson	167.1	166.1	169.1	171.3	169.5	(3.7)	(0.6)	1.8	1.3	(0.3)
Capital Region	85.6	87.5	88.2	89.0	87.1	(0.9)	2.3	0.8	0.9	(0.8)
Mohawk Valley	31.3	31.3	31.4	32.3	32.1	0.1	(0.1)	0.4	2.7	1.9
North Country	26.2	26.0	27.2	27.6	27.4	(3.1)	(0.6)	4.4	1.7	1.6
Central New York	67.7	67.1	67.7	68.3	66.3	(2.0)	(0.9)	0.9	0.8	(1.2)
Southern Tier	48.1	47.4	47.6	47.7	47.1	(1.8)	(1.5)	0.3	0.3	0.0
Western New York	114.9	113.0	112.9	114.3	111.9	(2.6)	(1.6)	(0.1)	1.2	(0.9)
Finger Lakes	90.9	89.6	90.1	91.0	89.7*	(3.1)	(1.4)	0.6	1.0	(0.3)
Unclassified	36.9	34.7	35.3	34.7	33.9	(2.9)	(6.1)	1.9	(1.7)	(2.0)
Statewide	1,424.7	1,417.8	1,434.2	1,445.5	1,434.6	(3.0)	(0.5)	1.2	0.8	0.4
Information										
New York City	164.6	152.7	149.7	150.6	151.3	(11.1)	(7.2)	(2.0)	0.6	1.4
Long Island	31.0	28.1	27.5	27.9	27.6	(1.4)	(9.4)	(2.3)	1.7	(0.7)
Mid Hudson	25.3	24.9	23.5	22.7	22.1	(6.8)	(1.6)	(5.4)	(3.7)	(3.7)
Capital Region	12.9	13.1	12.0	12.1	11.8	(5.7)	1.1	(7.9)	0.1	(1.3)
Mohawk Valley	5.1	4.6	4.5	4.3	4.0	8.2	(10.0)	(2.7)	(4.0)	(7.3)
North Country	2.1	2.1	2.0	1.9	2.1	(3.9)	0.4	(3.1)	(5.4)	11.3
Central New York	7.2	7.2	7.3	6.8	6.2	(13.1)	0.4	0.4	(6.4)	(10.2)
Southern Tier	5.6	5.0	4.9	4.8	4.7	(2.9)	(10.1)	(2.4)	(1.8)	(2.4)
Western New York	11.5	10.9	10.8	10.4	10.2	(3.3)	(5.1)	(0.9)	(3.3)	(1.5)
Finger Lakes	13.9	13.5	12.4	11.8	11.5	0.3	(3.3)	(8.0)	(5.2)	(1.8)
Unclassified	16.1	13.3	13.6	14.5	14.6	(17.6)	(17.6)	2.1	6.5	11.5
Statewide	295.4	275.4	268.2	267.8	266.3	(8.8)	(6.8)	(2.6)	(0.2)	0.4

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REGIONAL EMPLOYMENT TRENDS: 2002-2006 (*cont'd*)

Region	Employment in Thousands					Percent Growth				
	Finance and Insurance									
	2002	2003	2004	2005	2006*	2002	2003	2004	2005	2006*
New York City	325.2	311.8	313.0	320.7	327.4	(8.9)	(4.1)	0.4	2.5	3.6
Long Island	62.8	63.6	63.8	62.4	59.8	1.7	1.2	0.4	(2.1)	(4.0)
Mid Hudson	31.3	31.4	32.4	34.4	34.7	(1.9)	0.3	3.4	6.0	1.2
Capital Region	21.3	21.5	21.9	22.2	22.6	0.1	0.9	2.0	1.5	2.3
Mohawk Valley	7.7	7.6	7.9	8.1	8.2	(5.0)	(1.9)	4.3	1.7	1.5
North Country	2.7	2.7	2.7	2.8	2.9	(0.1)	(1.7)	1.0	2.2	3.0
Central New York	13.9	13.8	13.7	14.0	14.4	(2.8)	(0.9)	(0.6)	2.4	3.7
Southern Tier	9.4	9.5	9.5	9.5	9.5	0.6	1.2	0.1	0.3	(0.9)
Western New York	27.8	28.1	28.8	28.8	29.3	10.6	1.3	2.2	0.0	2.3
Finger Lakes	14.5	15.2	15.5	15.4	15.8	(4.6)	4.9	1.7	(0.5)	3.3
Unclassified	8.1	8.6	7.1	7.7	9.0	1.7	6.0	(17.1)	8.1	22.8
Statewide	524.8	513.8	516.3	526.0	533.5	(5.4)	(2.1)	0.5	1.9	2.5
	Business and Professional Services									
New York City	522.4	515.4	519.4	532.5	542.1	(5.1)	(1.3)	0.8	2.5	2.8
Long Island	145.3	145.0	148.8	152.5	154.0	(3.8)	(0.2)	2.6	2.5	3.2
Mid Hudson	88.4	89.5	93.9	94.3	93.2	0.4	1.3	4.9	0.4	0.4
Capital Region	52.0	52.6	53.9	55.5	56.7	(4.1)	1.1	2.6	2.9	3.3
Mohawk Valley	11.6	11.5	11.1	10.5	10.7	(2.5)	(1.3)	(3.6)	(5.2)	3.2
North Country	6.8	6.8	6.2	7.0	7.5	5.9	0.3	(8.6)	12.9	13.2
Central New York	31.4	34.3	35.3	35.9	35.9	0.6	9.3	2.7	1.8	1.9
Southern Tier	23.6	21.6	21.3	21.6	22.6	(12.0)	(8.4)	(1.3)	1.5	7.3
Western New York	63.5	64.9	66.5	68.1	69.2	0.8	2.2	2.5	2.4	3.6
Finger Lakes	56.0	56.7	58.1	59.9	60.1	(3.5)	1.3	2.3	3.2	2.0
Unclassified	44.7	38.9	38.4	38.9	35.2	(7.5)	(12.9)	(1.3)	1.3	(6.4)
Statewide	1,045.7	1,037.2	1,052.9	1,076.7	1,087.2	(4.0)	(0.8)	1.5	2.3	2.5
	Education, Health Care, and Social Assistance									
New York City	616.3	626.8	636.5	649.2	663.2	2.8	1.7	1.6	2.0	2.3
Long Island	179.2	185.1	188.3	191.3	191.3	3.5	3.3	1.8	1.6	0.2
Mid Hudson	146.6	149.3	152.4	154.7	156.3	0.4	1.8	2.1	1.5	1.5
Capital Region	77.9	79.6	81.2	81.4	81.4	1.8	2.2	2.0	0.2	0.4
Mohawk Valley	28.0	28.9	29.2	29.9	30.3	2.0	3.4	1.0	2.5	2.3
North Country	22.3	23.0	24.2	24.3	24.3	4.7	2.7	5.6	0.2	0.5
Central New York	50.3	50.7	52.6	53.6	54.1	0.1	0.8	3.8	2.0	1.4
Southern Tier	55.8	57.3	57.8	58.8	58.7	2.0	2.8	0.9	1.7	(1.4)
Western New York	89.9	91.6	94.5	95.1	94.5	0.8	1.9	3.2	0.6	(1.0)
Finger Lakes	87.5	89.5	92.8	94.4	95.4	1.1	2.3	3.6	1.8	0.6
Unclassified	8.5	7.0	5.8	4.3	4.5	3.8	(18.5)	(16.8)	(25.4)	20.7
Statewide	1,362.5	1,388.7	1,415.4	1,437.0	1,454.0	2.2	1.9	1.9	1.5	1.3
	Leisure, Hospitality, and Other Services									
New York City	382.9	387.8	396.5	405.7	408.9	(0.6)	1.3	2.2	2.3	1.8
Long Island	134.3	137.4	141.5	141.9	138.6	1.6	2.3	3.0	0.3	0.5
Mid Hudson	103.1	104.8	107.5	106.6	102.3	3.7	1.7	2.6	(0.8)	(1.7)
Capital Region	58.1	59.4	59.8	60.0	58.4	3.5	2.1	0.8	0.2	0.5
Mohawk Valley	21.0	18.1	18.4	18.3	17.5	0.3	(13.4)	1.3	(0.4)	(0.5)
North Country	19.8	19.4	18.7	18.5	17.6	0.6	(1.6)	(3.7)	(0.9)	(1.2)
Central New York	41.8	42.2	42.8	42.6	41.8	(0.1)	1.0	1.5	(0.6)	(0.9)
Southern Tier	32.5	32.8	33.0	33.0	32.3	2.6	0.9	0.9	(0.0)	0.8
Western New York	79.1	79.0	79.1	78.6	77.7	1.6	(0.1)	0.1	(0.7)	0.3
Finger Lakes	60.1	61.2	61.8	62.4	60.6	2.4	1.9	0.9	1.0	(1.1)
Unclassified	15.9	11.7	12.3	12.0	11.6	(31.3)	(26.6)	5.1	(2.3)	(0.8)
Statewide	948.4	953.8	971.5	979.6	967.2	0.2	0.6	1.9	0.8	0.6

* Levels for 2006 are based on the first two quarters of the year; 2006 growth rates are relative to the same period in 2005.

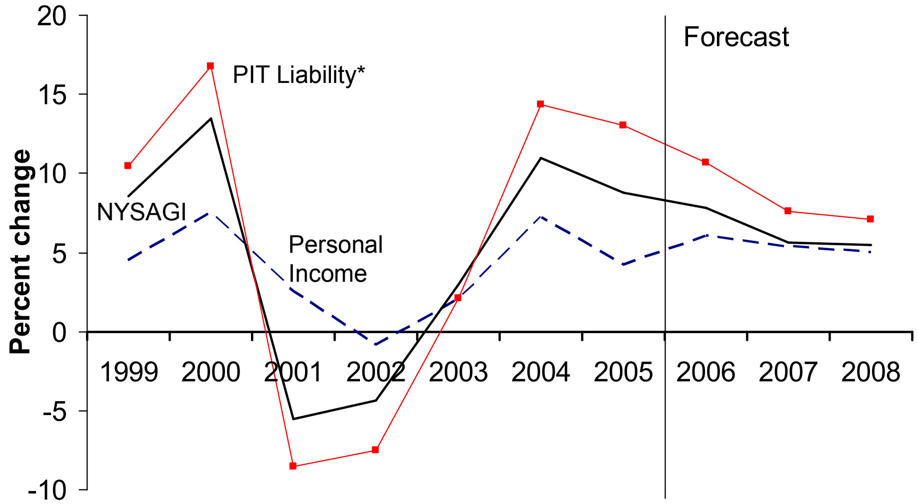
Source: NYS Department of Labor, QCEW.

NEW YORK STATE ADJUSTED GROSS INCOME

The personal income tax (PIT) accounts for almost 60 percent of total state tax receipts. Therefore, detailed knowledge of the composition of the State's personal income tax base and its determinants is critical to accurately projecting receipts. Box 8 compares three important indicators of the size of the State's personal income tax base, and recent trends in those indicators are presented in Figure 57. New York State adjusted gross income (NYSAGI), the measure of income used by taxpayers to compute their tax liability, rebounded strongly by 11.0 percent in 2004, following the end of the State's recession. Although 2004 is the last year for which detailed taxpayer data are available, processing data for 2005 suggest that growth in NYSAGI slowed to 8.8 percent for that year and is projected to have slowed further to 7.8 percent for 2006. Consistent with the cooling of the national and State economies, NYSAGI growth is expected to decelerate further in 2007 and 2008.

Figure 57

The Indicators of New York State's Tax Base



*PIT liability is computed based on 2002 tax law.
Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

BOX 8
INCOME TAX LIABILITY AND ALTERNATIVE MEASURES OF INCOME

A major focus of DOB's forecasting effort is an accurate projection of personal income tax receipts. This requires estimates of income tax liability, which depends on taxpayer income. New York State tax law determines the components of income to be taxed and the corresponding tax rates.

PIT liability is the amount which State taxpayers actually owe for a given tax year and thus measures the State's tax base.[1] PIT liability is derived from taxpayers' New York State adjusted gross income (NYSAGI), in conformity with State tax law. A measure that is closely related to NYSAGI is State personal income, a U.S. Bureau of Economic Analysis national income and product accounts (NIPA) concept that measures income derived from value added to current production.[2] This widely available data source is often used as a proxy for NYSAGI. The relative volatility of these three concepts — PIT liability, NYSAGI, and State personal income — is presented Figure 1. For example in 2004, personal income experienced solid growth of 7.2 percent, while NYSAGI grew a considerably stronger 11.0 percent and PIT liability an even stronger 14.4 percent, holding tax rates constant at their 2002 values.

Economists use the concept of elasticity to measure the sensitivity of one economic indicator to another. Thus, elasticity is defined as the percentage change in one economic indicator when another changes by one percent. Since tax revenues tend to vary with the business cycle, we are often interested in the elasticity of the tax base with respect to a broad measure of economic conditions, such as GDP. For example, if GDP increases one percent and personal income responds to that improvement in economic conditions by growing two percent, the elasticity would be two. The more sensitive a particular tax base measure is to a change in GDP, the higher the elasticity.

Typically, the elasticity of NYSAGI tends to be higher than that of personal income because NYSAGI measures the taxable components of income, which include realized capital gains and losses. Gains and losses earned on changes in asset prices are not included in the NIPA concept of personal income since they do not represent additions or subtractions to the value of current production.[3] Unlike the primary drivers of personal income — employment and wages, which have relatively stable bases — income from capital gains realizations can rise and fall dramatically. When asset market conditions are depressed, taxpayers can refrain from selling, which can result in dramatic declines in taxable capital gains, such as the 50.0 percent decline experienced in 2001 and 27.0 percent decline that followed in 2002 (see Table 8). Likewise, taxpayers can respond to upturns in market conditions by accelerating trading activity, resulting in similarly dramatic growth, such as the more than 70 percent growth in taxable capital gains income experienced in 2004. In addition to behavioral responses to changes in market conditions, NYSAGI can fluctuate due to statutory changes and to taxpayers' strategic responses to such changes.

PIT liability is even more elastic than NYSAGI, primarily because of the progressivity of the State tax system. The volatile components of taxable income, such as bonuses and capital gains realizations, tend to be concentrated among the State's high-income taxpayers, who are also taxed at the highest marginal tax rate. Growth in those components usually increases the average effective tax rate and contributes to the higher elasticity of PIT liability. Table 8 contrasts the volatility of positive capital gains with that of wages, positive partnership/S corporation income, and total NYSAGI. In 2002, taxable wages fell 2.0 percent, NYSAGI fell 4.4 percent, but capital gains realizations fell a much greater 27.0 percent. Indeed, the $8.6 billion decline in capital gains realizations constituted 40.9 percent of the $21.1 billion decline in NYSAGI. For 2004, strong NYSAGI growth of 11.0 percent was accompanied by 72.5 percent growth in capital gains and 11.6 percent growth in the other large component, partnership/S corporation income.

The fact that the most volatile components of income can and have accounted for a large portion of the change in NYSAGI poses significant risks to the Division of the Budget's personal income tax forecast.[4] Therefore, the Budget Division has consistently maintained that a cautious approach to projecting these components is warranted.

[1] For a detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."
[2] For a detailed explanation of how the Budget Division constructs State personal income, see Box 6, at the end of "The New York State Economy" section.
[3] However, any transaction cost generated by such a sale would add value to current production and would therefore be included in personal income.
[4] For a detailed explanation of the Budget Division's use of fan charts to compute prediction intervals around forecasts, see *2006-07 New York State Executive Budget, Economic and Receipts Estimating Methodology*, pp. 422-425.

TABLE 8
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	2001	2002	2003	2004	2005*	2006	2007	2008
	Actual				Estimated			
NYSAGI								
Level ($ Billions)	481.0	459.9	473.8	526.0	572.2	616.9	651.5	687.1
Change ($ Billions)	(27.9)	(21.1)	13.9	52.2	46.3	44.6	34.6	35.6
% Change	(5.5)	(4.4)	3.0	11.0	8.8	7.8	5.6	5.5
Wages								
Level ($ Billions)	376.2	368.7	373.3	397.4	417.7	448.9	474.9	499.0
Change ($ Billions)	8.0	(7.4)	4.6	24.1	20.2	31.3	26.0	24.1
% Change	2.2	(2.0)	1.2	6.5	5.1	7.5	5.8	5.1
Capital Gains								
Level ($ Billions)	32.0	23.3	31.2	53.8	66.4	73.4	77.9	82.3
Change ($ Billions)	(32.0)	(8.6)	7.8	22.6	12.7	6.9	4.5	4.4
% Change	(50.0)	(27.0)	33.6	72.5	23.5	10.5	6.2	5.7
Partnership/S Corporation								
Level ($ Billions)	37.9	39.1	41.1	45.9	53.3	57.9	61.8	66.7
Change ($ Billions)	(1.0)	1.2	2.0	4.8	7.4	4.6	4.0	4.9
% Change	(2.6)	3.0	5.2	11.6	16.2	8.6	6.8	7.9

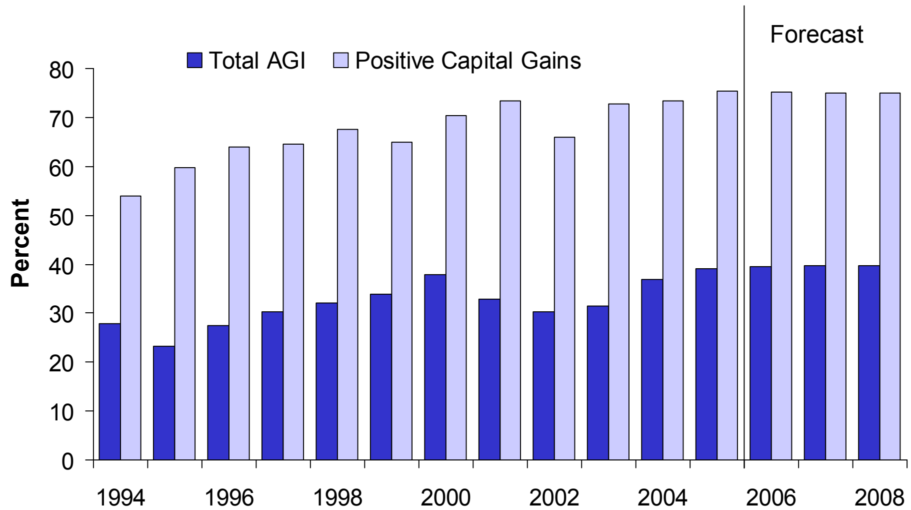
Note: Discrepancies due to rounding.
Source: NYS Department of Taxation and Finance; DOB staff estimates.
* 2005 Estimates are based on processing data except for wages.

Changes in the State Distribution of Income and Revenue Risk

The most volatile components of taxable income, such as bonuses and capital gains realizations, are highly concentrated among the State's highest-income taxpayers. While the top one percent of taxpayers, as determined by their NYSAGI, accounted for 36.8 percent of adjusted gross income in 2004 and 39.1 percent in 2005, they accounted for fully 73.4 percent and 75.2 percent of capital gains realizations in those years, respectively (see Figure 58). Since the income of wealthy taxpayers is taxed at the highest rate, an accurate projection of these income components is critical to an accurate projection of PIT liability.

Out-year estimation of the income distribution is fraught with uncertainty since the share of income earned among the wealthiest taxpayers can fluctuate dramatically with such factors as the business cycle, financial markets, and changes in Federal and State tax treatment. As incomes rise, some taxpayers move into higher income tax brackets, increasing the effective tax rate and the amount of liability generated from a given amount of adjusted gross income. The opposite occurs as incomes fall. This impact is exacerbated in New York by provisions in State laws that recapture the benefits of portions of income being taxed at lower rates for high income taxpayers.

Figure 58
Income Shares of the Top One Percent Taxpayers
AGI and Capital Gains Realizations

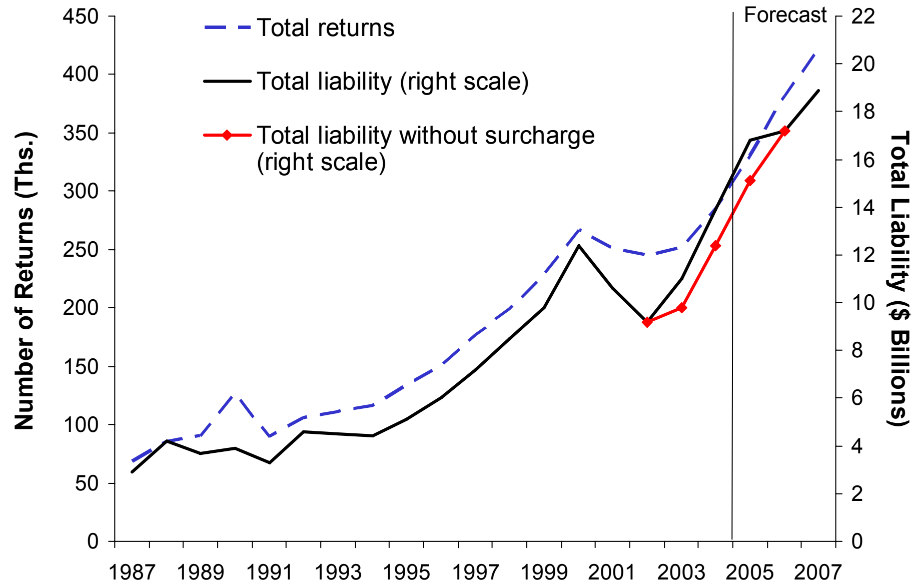


Note: For nonresident taxpayers, shares are based on total income.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The average effective tax rate fell from a high of 4.81 percent in 2000 to a low of 4.51 percent in 2002 without any significant changes in tax law. Fiscal pressures resulting from the State's 2001-2003 recession prompted the legislature to enact a surcharge for high-income taxpayers for the 2003, 2004, and 2005 tax years, pushing the effective tax rate up to 5.09 percent by 2005, the second full year of the State recovery. DOB estimates that without the tax law change, the effective tax rate would have increased to 4.78 percent in 2005, due to income growth alone. In 2006, the effective tax rate is estimated to have increased to 4.80 percent, significantly below what it would have been had the surcharge not expired as scheduled on January 1 of that year.

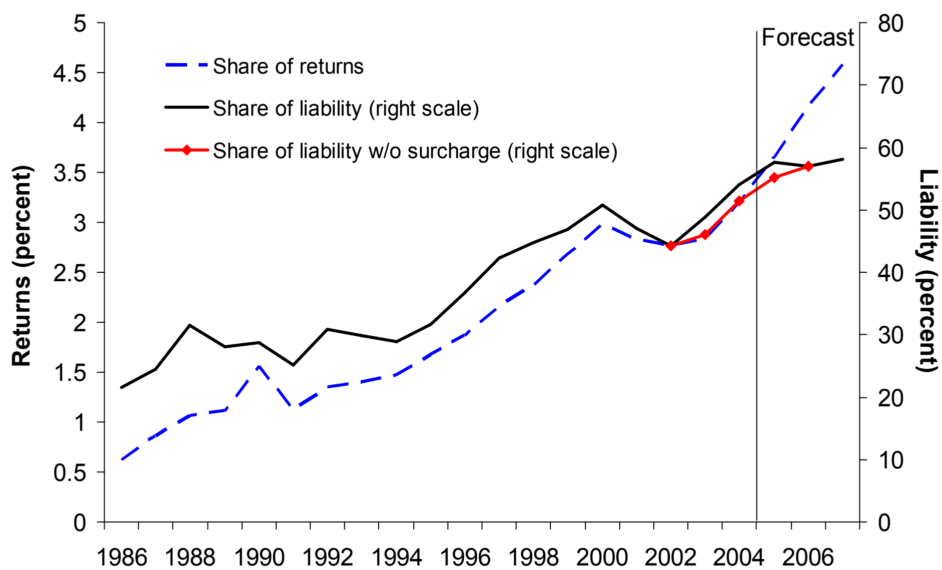
The share of total personal income tax liability accounted for by high-income taxpayers — those reporting NYSAGI of $200,000 or more — grew considerably between 1995 and 2005 (see Figure 59). The 10.3 percent average annual growth rate in high-income returns between 1995 and 2005 far outpaced the 1.3 percent overall growth in returns. In 2005, high-income taxpayers represented a mere 3.7 percent of all taxpayers but accounted for 42.0 percent of NYSAGI and 57.6 percent of personal income tax liability (see Figure 60). The increasing concentration of NYSAGI among high-income taxpayers increases the elasticity of total liability with respect to changes in the highest marginal tax rate.

Figure 59
New York State High-Income Tax Returns



Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 60
High-Income Taxpayers as Percent of Total Returns and Liability



Source: NYS Department of Taxation and Finance; DOB staff estimates.

TABLE 9
THE CONCENTRATION OF STATE INCOME AND LIABILITY
1994 & 2004

	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
		1994			
Total ($ millions)	7,898,545	$311,153	$242,771	$68,382	$15,241
Share: Top 1%	—	17.8	11.0	42.2	25.0
Share: Top 5%	—	33.2	25.3	61.1	44.1
Share: Top 10%	—	67.5	62.1	86.5	78.4
Share: Top 25%	—	66.1	61.5	82.3	77.5
		2004			
Total ($ millions)	8,929,346	$568,069	$397,431	$170,638	$25,766
Share: Top 1%	—	26.8	16.9	49.9	40.0
Share: Top 5%	—	42.2	32.0	66.1	59.9
Share: Top 10%	—	52.6	43.8	73.1	70.9
Share: Top 25%	—	72.3	66.6	85.8	87.9

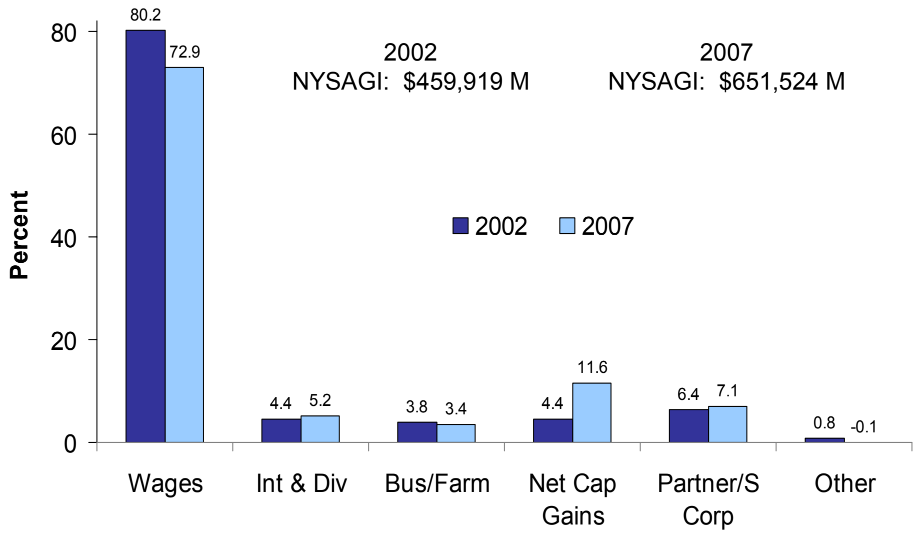
Note: Returns are ranked on the basis of gross income and based on a weighted statistical sample of all tax returns.

Table 9 indicates that trends in both wage and nonwage income are responsible for the increasing concentration of liability since the mid-1990s. The share of nonwage income accruing to the top 25 percent of taxpayers grew 3.5 percentage points between 1994 and 2004, while the wage share grew 5.1 percentage points. Much of the growth in nonwage income during the 1990s was in capital gains realizations and partnership/S corporation income, which tend to accrue primarily to high-income filers. Although wage income is more evenly distributed across taxpayers than nonwage income, the gains in wages earned since 1993 have gone disproportionately to the top filers.

Figure 61 and Figure 62 display the composition of NYSAGI for 2002, the second year of the State's recession, and for 2007, based on Budget Division projections, for both all taxpayers and high-income taxpayers, defined as those reporting NYSAGI of $200,000 or more. The figures show a substantial shift in income from wages to net capital gains realizations over the period.[20] Net capital gains income is projected to increase from 4.4 percent to 11.6 percent of NYSAGI for all taxpayers, and from 11.7 percent to 22.5 percent of NYSAGI for high-income taxpayers. The wage share is projected to decrease from 80.2 percent to 72.9 percent for all taxpayers, and from 59.4 percent to 52.9 percent for high-income taxpayers. High-income taxpayers have a much higher concentration of capital gains income and partnership and S corporation income, and a much smaller concentration of wage income.

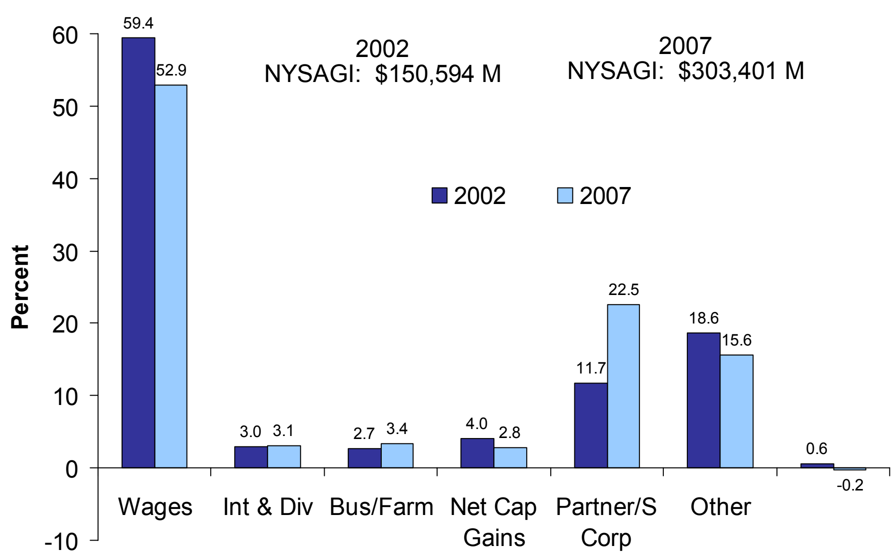
[20] Net capital gains and partnership/S corporation income in these figures are net of the corresponding aggregate losses.

Figure 61
Composition of NYSAGI for All Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 62
Composition of NYSAGI for High-Income Taxpayers



Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The Major Components of NYSAGI

The Budget Division forecasts for the components of NYSAGI are based on detailed historical tax return data from samples of State taxpayers through the 2004 tax year, made available by the New York State Department of Taxation and Finance. For 2005, preliminary processing data based on the entire population of tax returns has been made available for the first time and are used to construct estimates for all of the income components except for wages. However, because the data for 2005 and for the prior period are derived from two different collection methods, some inconsistency may have been introduced into the series.

Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from Quarterly Census Employment and Wages (QCEW) data, they tend to follow a similar trend. Therefore, projected growth rates for taxable wages from 2005 onward are based on the history and forecast for total State wages derived from the Budget Division New York macroeconomic forecast, which is based on QCEW data. For a discussion of the Budget Division forecast for State wages, see "Outlook for Income" in the preceding "The New York State Economy" section.[21]

Positive Capital Gains Realizations

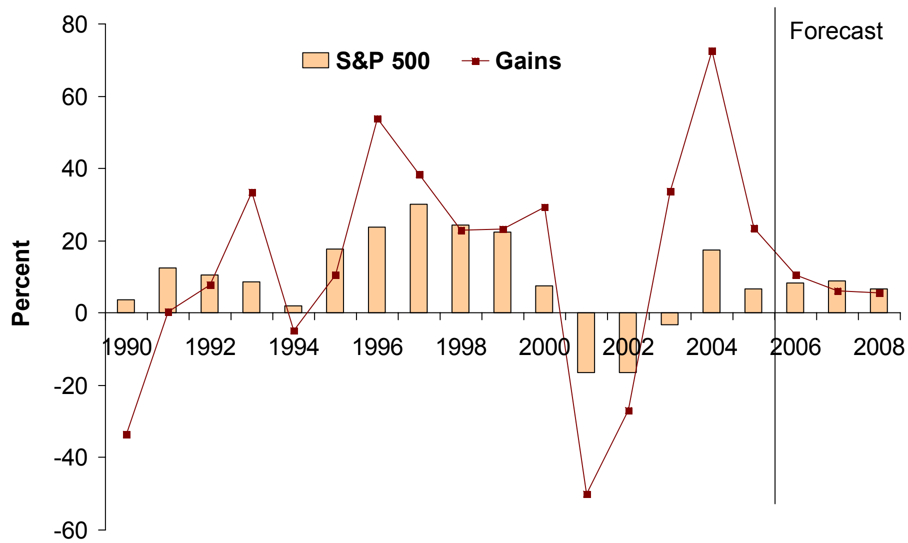
The volatility in capital gains realizations has accounted for a large share of the fluctuation in total NYSAGI in recent years. Positive capital gains income dropped from $64.0 billion, or 12.6 percent of total NYSAGI, in 2000 to $23.3 billion, or 5.1 percent of NYSAGI, in 2002, but is estimated to have grown to $66.4 billion, or 11.6 percent of NYSAGI for 2005. The Budget Division's forecasting model has attempted to capture the inherent volatility in this component of income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes, financial market activity, and real estate market activity.[22]

The Federal and State taxes on capital gains constitute a cost associated with realizing capital gains and can greatly affect realization behavior. For example, the hike in the capital gains tax rate from 20 percent to 28 percent that took effect in 1987, but was anticipated by taxpayers when the law was enacted in 1986, caused an increase in realizations of 90.7 percent in 1986, followed by a decline of 54.6 percent in 1987.

Capital gains realizations are also strongly influenced by fluctuations in equity market prices. Mirroring the fluctuations of S&P 500, capital gains realizations experienced strong growth between 1995 and 2000, followed by drastic declines in 2001 and 2002 and a recovery thereafter. Capital gains realizations tend to be even more volatile than the equity markets that drive them, as shown in Figure 63.

[21] For additional information about the estimation procedures for the major income components and technical details underlying the fan charts, see *2006-07 New York State Executive Budget — Economic and Revenue Outlook: Analysis and Methodology*, pp. 417-425.
[22] For a discussion of DOB's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pp. 172-183.

Figure 63
Growth in Capital Gains Realizations and S&P 500



Note: Forecast period for the S&P 500 starts in 2007.
Source: IRS Statistics of Income; NYS Department of Taxation and Finance; DOB staff estimates.

Gains from real estate transactions are also taxable as capital gains, though gains earned from the sale of a primary home are exempt up to a certain limit, for example, up to $500,000 for married couples filing jointly.[23] Real estate related gains are estimated to represent a large component of capital gains realizations in New York. Although no direct evidence of this assertion exists, its validity is supported by evidence from national studies and from other states. Historical data for California show that in 2004, 23.1 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 8.3 percent in 1996, to a high of 32.4 percent in 1990.[24] A study based on national data indicates that in 1993, 22 percent of net capital gains realizations in the U.S. were generated by real estate transactions.[25]

State real estate transfer tax (RETT) data provide a timely indicator of the strength of real estate sales and therefore of the possible impact of the real estate market on taxable gains. Recent RETT data indicate growth of 52.6 percent in cash collections related to real estate transactions for 2004, followed by growth of 28.5 percent for 2005. However, the real estate market cooled in 2006. Figure 64 shows the growth between the second and the third quarters of 2006 in the median prices of existing home sold, by county for New York State. Though some counties experienced considerable growth, all the counties in New York City as well as most of the Hudson Valley and the Capital Region experienced declines in median home values. Median home prices tend to be quite high in the New York City area and grew quite briskly during the recent housing boom; therefore, New York City sales are more likely

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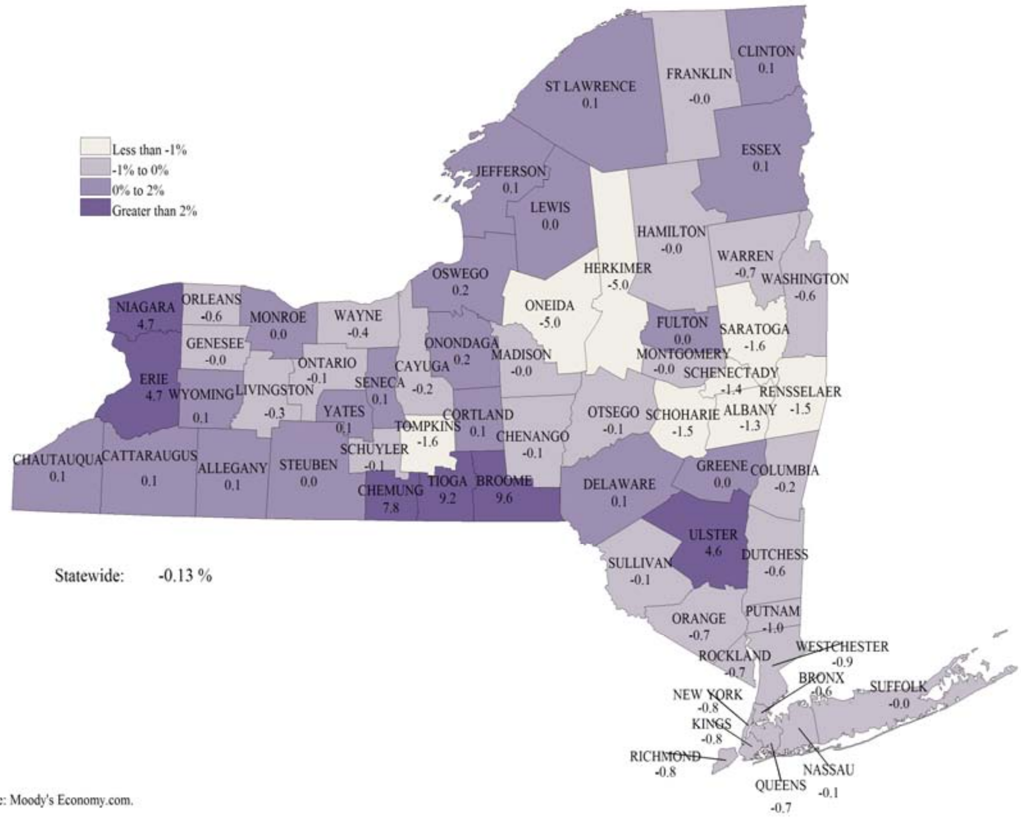
[23] Taxpayers can claim this exclusion if they have lived in their home for a total of two years in a 5-year period ending on the date they sold or exchanged their home, and if they have not sold or exchanged another home in the 2-year period ending on the date they sold or exchanged their home.
[24] Unpublished Study, Economics and Statistical Research Bureau, California Franchise Tax Board.
[25] L. E. Burman and P. R. Ricoy, "Capital Gains and the People Who Realize Them," *National Tax Journal* 50(3), September 1997, pp. 427-451.

to generate taxable capital gains by surpassing the exemption threshold than in areas where both prices and growth have been lower. Thus, the Budget Division estimates that real estate transactions made a smaller contribution to capital gains realizations growth for 2006 than for the prior two years.[26]

Figure 64
Growth in Median Home Prices between Second and Third Quarter of 2006

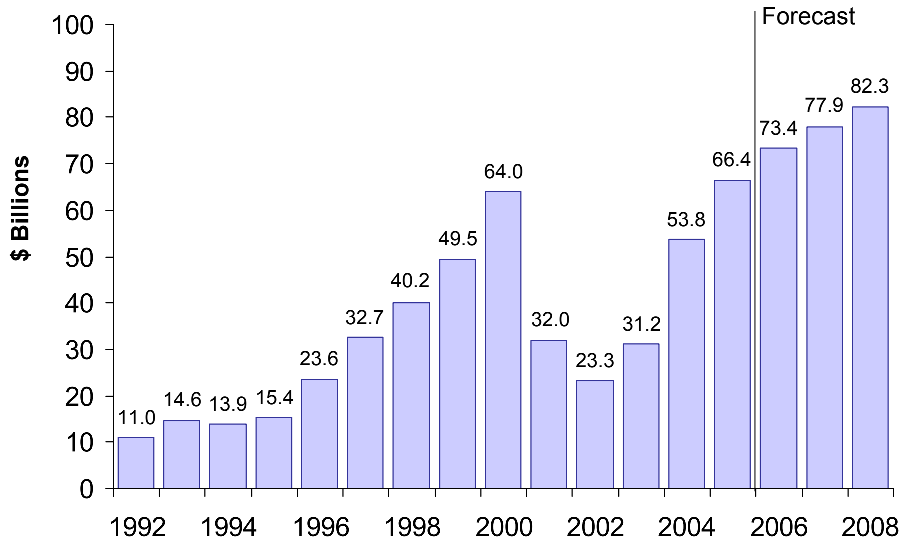


The strong performances of the financial and real estate markets contributed to the 72.5 percent growth in capital gains realizations observed for 2004, and the 23.5 percent growth for 2005. Capital gains realizations in 2005 surpassed their 2000 high of $64.0 billion by $2.4 billion (see Figure 65). The real estate market is believed to be one of the main driving forces behind the extraordinary growth in taxable capital gains income observed in 2004 and 2005. Had the value of real estate transactions stayed at its 2003 level, capital gains realizations would have been $16.4 billion lower in 2004 and $21.9 billion lower in 2005. Reflecting a much cooler real estate market and a slowing economy in 2006, the Budget Division estimates slower growth in capital gains income of 10.5 percent for 2006, followed by projected growth of 6.2 percent and 5.7 percent for 2007 and 2008, respectively.

[26] Recent years have seen a large increase in investments undertaken by private equity firms. Private equity firms own securities in companies that are not listed on a public stock exchange and generally receive a return on their investment through a sale or merger of the company, a recapitalization, or by selling shares back to the public through an initial public offering. The return to private equity investments is often not realized for at least three years, but the rate of return is generally quite high relative to the return to publicly held stocks to compensate for the higher degree of risk. Though related to the performance of equity markets and real estate markets, capital gains from private equity funds exhibit their own dynamics. DOB is currently investigating capital gains forecast models that would include forecasts of private equity fund performances.

Figure 65

Capital Gains Realizations



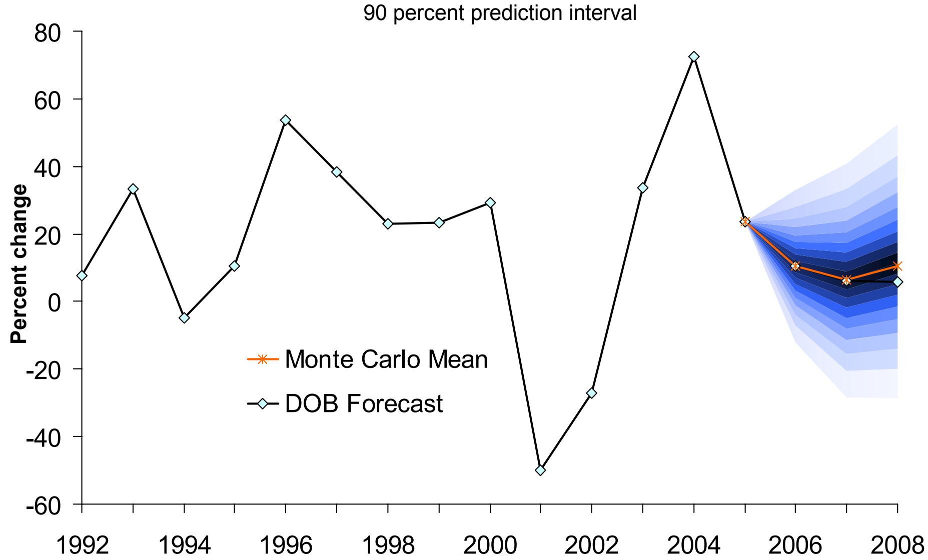
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The Budget Division continues to believe that realized capital losses carried over from prior years represent a significant risk to the gains forecast. The Budget Division's 2006-07 Executive Budget forecast for the level of taxable capital gains realizations for 2005 was indeed too high. It was originally projected that realizations would rise to $72.5 billion for 2005 and stay at roughly that level for 2006, with taxpayers applying losses carried over from past years to reduce their taxable income for that year by approximately $10 billion below the model forecast. However, based on the most recent data, it is estimated that New York taxpayers applied that $10 billion in losses one year earlier than projected. The resulting decline in the amount of losses being carried over into 2006 and future years reduces but does not eliminate the risk to the capital gains forecast from this source going forward.

When forecasting a particularly volatile series, assessing the risk surrounding the forecast can be as important as the forecast itself. DOB projections have emphasized the high degree of uncertainty associated with any capital gains forecast, particularly since realizations are driven by extremely volatile equity and real estate prices. The tool used by the Division of the Budget for presenting the risk to the forecast is the fan chart, which displays prediction intervals constructed from both Monte Carlo simulation results and past forecast errors (see Figure 66).[27]

[27] Monte Carlo simulation models are discussed in some detail in *2006-07 New York State Executive Budget — Economic and Revenue Outlook: Analysis and Methodology*, pp. 423-424.

Figure 66
Fan Chart for Capital Gains Income Growth



Note: With 90 percent probability, capital gains growth will fall within the shaded region. Bands represent 5 percent probability regions.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The prediction intervals that appear in Figure 66 suggest that a wide range of growth rates are possible, reflecting the properties of the forecasting model, the volatile history of the capital gains series itself, and the model's past performance. For example, the 50 percent prediction region for 2007 encompasses growth rates ranging from a decline of 7.9 percent to an increase of 20.5 percent. DOB's projections over the entire forecast horizon fall slightly below the center of the distribution, based on an assessment of the downside risks to the model forecast from a cooling economy, continued slowing of the real estate market, and continuing downside risk from losses carried forward from the 2000-2002 bear market.[28]

Rent, Royalty, Partnership, and S Corporation Gains

Positive rent, royalty, estate, trust, partnership and S corporation income accounted for 9.3 percent of NYSAGI in 2005, up from 5.5 percent in 1990 and 7.6 percent in 2000. The largest contributor to this component is partnership income, much of which originates within the finance and real estate industries and is therefore linked to the performances of both the economy and the stock market. A second large contributor to this component is income from S corporation ownership. Selection of S corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation. Over the years, the number of S corporations has increased dramatically, as rules governing which businesses can form S corporations have become less stringent. Tax incentives for forming S corporations as opposed to C corporations arise from avoiding double taxation of earnings at the corporate level and the individual level.

[28] For a more detailed discussion of the loss carryover, see 2005-06 *New York State Executive Budget - Financial Plan*, pp 240-241.

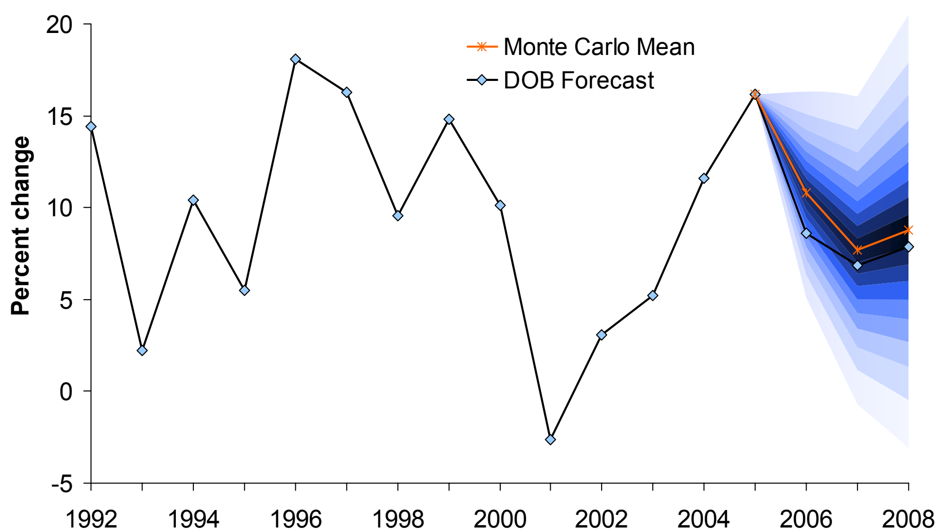
While New York proprietors' income (as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income) grew at an average annual rate of 7.6 percent between 1978 and 1990, taxable partnership and S corporation income grew at a significantly faster rate of 11.5 percent. Some of this growth is due to past tax law changes and to an easing of the Federal and State requirements for forming S corporations. Strong growth in 2004 and 2005 coincides with the exceptional performance of the real estate market, a robust performance of the US economy, and recovering financial markets.

Based on the slowdown in economic growth, the Budget Division estimates slower growth in positive partnership and S corporation income of 8.6 percent for 2006. Even slower growth of 6.8 percent is forecast for 2007, due to the projected weakening in national economic growth, followed by growth of 7.9 percent for 2008.

Figure 67

Fan Chart for Partnership/S Corporation Income Growth

90 percent prediction intervals



Note: With 90 percent probability, actual growth will fall into the shaded region. Bands represent 5 percent probability regions.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

The fan chart for partnership and S corporation income shows DOB's assessment of the forecast risks (see Figure 67). The prediction regions are narrower than those for capital gains because partnership and S corporation income has historically been less volatile than capital gains realizations. The 50 percent prediction interval for 2007 encompasses growth rates ranging from 6.6 percent to 11.1 percent. The Budget Division considers the risks to the model forecast to be on the downside, partly because the real estate market is not captured in the forecast model despite a high concentration of real estate partnerships in New York State. Thus, DOB's forecast reflects the considerable risk emanating from the real estate market in 2006 that the model does not capture. The Budget Division also views a decline in the profitability of hedge funds as a source of downside risk.

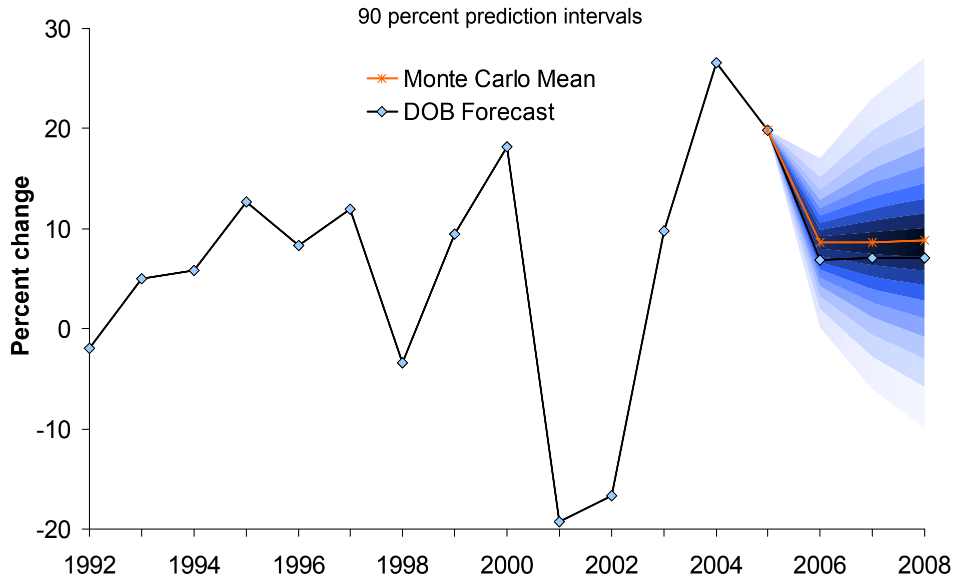
Dividend Income

Dividend income is expected to rise with the fortunes of publicly held U.S. firms, which, in turn, are expected to vary with the business cycle as measured by growth in real U.S. GDP, long-term interest rates as represented by the 10-year Treasury yield, and the performance of equity markets. State dividend income has ranged from a decline of 19.3 percent in 2001 to an increase of 26.6 percent in 2004, proving much more variable than U.S. dividend income, a component of the NIPA definition of U.S. personal income.

Processing data show that dividend income grew a very strong 19.8 percent in 2005, following the 26.6 percent growth in 2004. The strong growth in 2004 reflects a number of one-time dividend payouts, most notably the $32 billion dividend distribution by Microsoft. DOB predicts a return to more average growth rates of 6.9 percent in 2006 and 7.0 percent in 2007 and 2008.

Figure 68

Fan Chart for Dividend Income Growth



Note: With 90 percent probability, actual growth will fall into the shaded region.
Bands represent 5 percent probability regions.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 68 indicates that dividend income can be quite volatile, resulting in wide prediction intervals. The 50 percent prediction interval for 2007 includes dividend income growth rates ranging from 2.6 percent to 14.5 percent. DOB considers risks to the model forecast to be on the downside for 2006, 2007, and 2008. Two years of very high growth rates from events that are not related to the economic factors that typically drive dividend income growth may cause the model forecast to be overly optimistic. Furthermore, renewed fears of inflation could adversely affect equity market performance and corporate profitability.

Interest Income

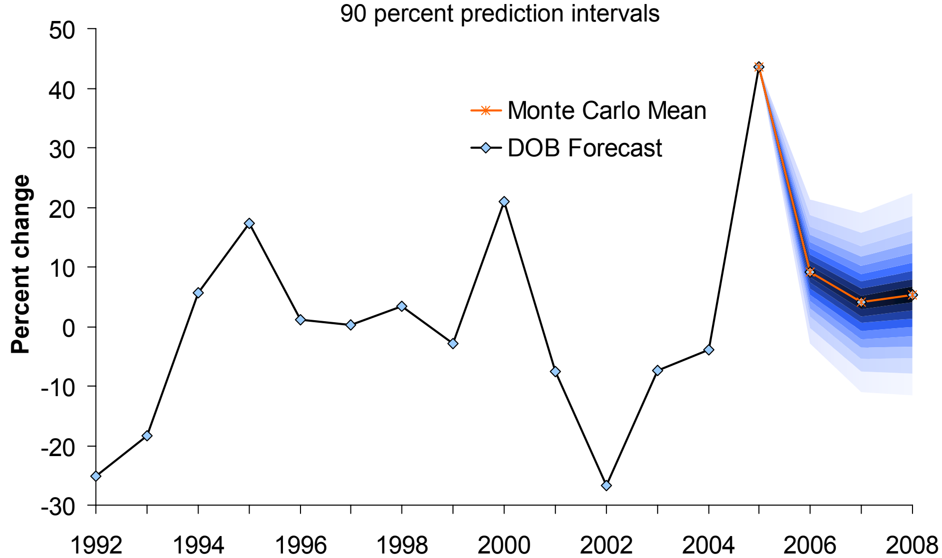
For a given amount of assets, an increase in interest rates will increase interest income. In addition, the overall trend in taxable interest income for New York is found to closely track that of U.S. interest income, another component of the NIPA definition of U.S. personal income. However, taxable interest income for New York is much more volatile than the latter measure. For the period from 1978 to 2005, the average growth rate for U.S. interest income was 6.9 percent, with a standard deviation of 8.7 percentage points. In contrast, New York's interest income over the same period averaged 5.3 percent growth, with a standard deviation of over 16.4 percentage points. The additional volatility in the New York series could be related to the behavioral response of State taxpayers to past changes in the tax law, as well as to sampling error.

Taxable interest income declined in 2004 by 4.0 percent, and processing information shows it to have grown by 43.5 percent in 2005. U.S. interest income for the same two years experienced a decline of 2.5 percent in 2004 and an increase of 6.1 percent in 2005. DOB estimates growth of 9.2 percent in 2006 corresponding to the increases in short-term interest rates over the first half of the year, followed by growth of 4.0 percent in 2007 and 5.3 percent in 2008.

Figure 69

Fan Chart for Interest Income Growth

90 percent prediction intervals



Note: With 90 percent probability, actual growth will fall into the shaded region. Bands represent 5 percent probability regions.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

The fan chart shows the considerable volatility of taxable interest income resulting in relatively wide prediction regions (see Figure 69). The 50 percent prediction region contains growth rates ranging from a decline of 2.1 percent to an increase of 10.2 percent in 2007. DOB generally considers the upside and downside risks to the forecast to be balanced.

Business and Farm Income

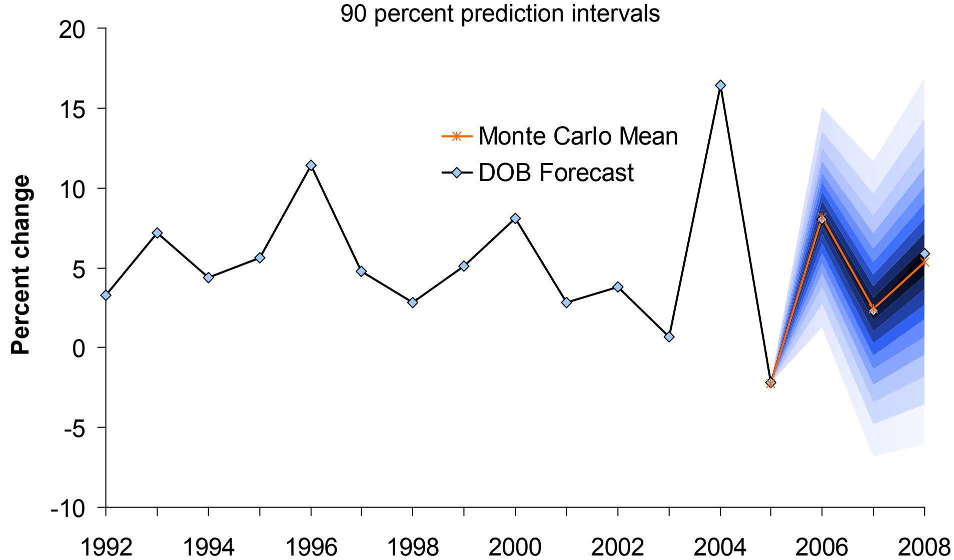
Business and farm income combines income reported as a result of operating a business, practicing a profession as a sole proprietor, or operating a farm. Such income is expected to vary with the overall strength of the national and State economies. The inclusion in the model of State proprietors' income, a component of the NIPA definition of New York personal income, which is forecast within DOB/N.Y., insures consistency between DOB's New York forecast and the forecast of this component of NYSAGI. Real U.S. GDP captures the impact of the national business cycle, which might not be captured by the NIPA definition of State proprietors' income.

Business and farm income grew at an annual rate of 10.0 percent from 1978 to 1990. However, since 1991, business and farm income has only grown at an annual average rate of 4.8 percent. Proprietors' income, as defined under NIPA, grew similarly for the same periods, at annual average rates of 10.1 percent and 5.5 percent, respectively. Growth for 2004 was considerably higher than average at 16.4, consistent with 9.9 percent growth in State proprietors' income and strong economic growth. Processing data for 2005 shows a decline of 2.2 percent in business and farm income, despite strong economic growth for that year, and may be subject to revision. DOB estimates above average growth of 8.1 percent in 2006, followed by weaker growth of 2.3 percent in 2007 based on a weaker national economy, accelerating to 5.9 percent growth for 2008.

Figure 70

Fan Chart for Business and Farm Income Growth

90 percent prediction intervals



Note: With 90 percent probability, actual growth will fall into the shaded region.
Bands represent 5 percent probability regions.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

Growth in business and farm income has been relatively stable over the past 13 years, resulting in a fan chart with relatively narrow prediction intervals (see Figure 70). The 50 percent prediction interval encompasses growth rates between -1.4 percent and 6.2 percent for 2007. DOB considers the upside and downside risks to the model forecast to be balanced. Therefore, no adjustment to the forecast is required.

Pension Income

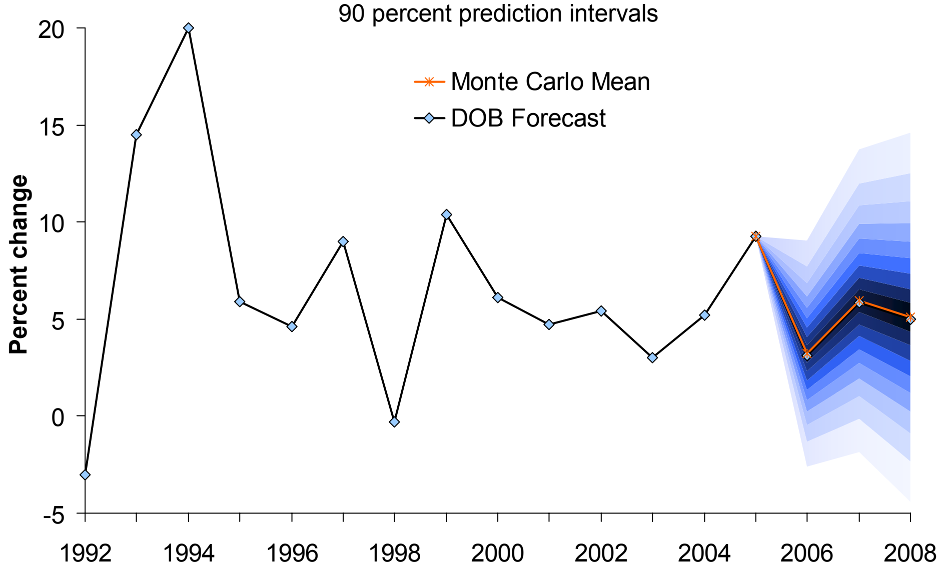
Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income is linked to long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is in turn tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time. While the average annual growth rate between 1978 and 1990 was 12.8 percent, it fell to 7.4 percent between 1991 and 2005. This coincides with a decline in the 10-year Treasury rate from 12.5 percent in the former period to 9.5 percent in the latter.

Pension income grew 5.2 percent in 2004, followed by growth of 9.2 percent for 2005. DOB's forecasting model estimates 3.1 percent growth for 2006, followed by growth of 5.8 percent in 2007 and 5.0 percent in 2008. The 50 percent prediction region for 2007 encompasses growth rates for pension income ranging from 2.7 percent to 9.1 percent. As indicated in Figure 71, the risks are assessed to be balanced.

Figure 71

Fan Chart for Pension Income Growth

90 percent prediction intervals



Note: With 90 percent probability, actual growth will fall into the shaded region. Bands represent 5 percent probability regions.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

Summary

In summary, given the uncertainty surrounding such volatile components as capital gains realizations and bonuses, and the small number of taxpayers who account for the majority of the income from these realizations, there exists significant risk to the Division of the Budget's personal income tax forecast. Some of this risk stems from the connection between revenues and the weakening real estate market. Further risk is caused by the link between revenues and the stock market, which is particularly difficult to forecast. The effect of the loss carryover and of yet unrealized losses on capital gains realizations could very easily exceed our current forecast. Financial sector bonuses, another volatile component of income, also can be adversely impacted by a weakening equity market. Should GDP growth for 2007 be even weaker than projected, business and farm income, and partnership and S corporation income could be lower than expected. Statistical evidence suggests that a one percentage point reduction in GDP growth translates into a decline in NYSAGI of about $1 billion and a decline in PIT liability of about $50 million.

TABLE 10
SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2005 (actual*)	2006 (estimate)	2007 (forecast)	2008 (forecast)	2009 (forecast)	2010 (forecast)	1976-2005 Average[2]
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	6.3	6.3	4.4	5.2	5.4	5.3	7.0
Gross Domestic Product	3.2	3.3	2.3	3.0	3.2	3.2	3.2
Consumption	3.5	3.1	2.9	3.2	3.4	3.2	3.4
Residential Fixed Investment	8.6	(3.8)	(11.5)	(2.2)	2.9	3.3	4.5
Nonresidential Fixed Investment	6.8	7.8	7.1	6.2	5.6	5.4	5.0
Change in Inventories (dollars)	19.7	49.6	36.8	41.1	34.5	32.7	27.7
Exports	6.8	8.6	7.5	8.2	8.3	8.0	5.9
Imports	6.1	6.2	5.5	6.8	7.1	6.8	7.4
Government Spending	0.9	2.2	2.2	2.0	2.1	2.0	2.2
Corporate Profits[3]	12.5	21.7	5.7	6.0	7.0	7.8	8.4
Personal Income	5.2	6.4	5.5	5.8	6.3	6.0	7.1
Wages	5.1	6.5	5.1	5.6	6.1	5.8	6.7
Nonagricultural Employment	1.5	1.4	1.1	1.3	1.5	1.5	1.9
Unemployment Rate (percent)	5.1	4.7	4.9	5.1	5.0	5.0	6.3
S&P 500 Stock Price Index	6.8	8.4	8.9	6.8	8.4	8.0	10.0
Federal Funds Rate	3.2	5.0	5.3	5.2	5.1	4.9	6.6
10-year Treasury Yield	4.3	4.8	4.8	5.2	5.3	5.4	7.8
Consumer Price Index	3.4	3.2	2.3	2.5	2.5	2.5	4.4
New York State Indicators							
Personal Income[4]	4.2	6.8	5.6	5.1	5.2	5.3	6.3
Wages and Salaries[4]							
Total	5.1	7.5	5.7	5.0	4.7	4.7	6.0
Without Bonus[5]	4.2	4.4	4.6	4.3	4.2	4.1	5.7
Bonus[5]	11.8	28.1	11.8	8.7	7.4	7.6	10.2
Wage Per Employee	4.2	6.6	5.0	4.3	4.0	4.0	5.2
Property Income	3.8	7.6	5.9	4.7	4.6	4.7	6.5
Proprietors' Income	7.4	4.7	4.7	6.9	7.3	7.6	8.5
Transfer Income	(0.4)	5.7	5.0	5.0	5.9	6.3	6.6
Nonfarm Employment[4]							
Total	0.9	0.8	0.7	0.7	0.7	0.7	0.7
Private	1.0	1.0	0.8	0.8	0.8	0.8	0.8
Unemployment Rate (percent)	5.0	4.5	5.0	5.2	5.3	5.2	6.7
Composite CPI of New York[5]	3.7	3.6	2.5	2.7	2.5	2.6	4.5
New York State Adjusted							
Capital Gains	23.5	10.5	6.2	5.7	9.1	6.7	17.6
Partnership/ S Corporation Gains	16.2	8.6	6.8	7.9	8.7	8.6	12.3
Business and Farm Income	(2.2)	8.1	2.3	5.9	4.8	5.3	7.2
Interest Income	43.5	9.2	4.0	5.3	4.6	4.3	4.0
Dividends	19.8	6.9	7.0	7.0	6.3	5.1	5.9
Total NYSAGI	8.8	7.8	5.6	5.5	5.7	5.4	6.1

* For NYSAGI variables, 2005 is an estimate.

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.

[2] For the NYSAGI variables, averages are calculated using data through 2004. Partnership and S corporation gains data start in 1978, NYSAGI data in 1980.

[3] Includes inventory valuation and capital consumption adjustments.

[4] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[5] Series created by the Division of the Budget.

Source: Moody's Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

TABLE 11

SELECTED ECONOMIC INDICATORS
(State Fiscal Year)

	2005-06 (actual)	2006-07 (estimate)	2007-08 (forecast)	2008-09 (forecast)	2009-10 (forecast)	2010-11 (forecast)	1976-77 - 2005-06 Average
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	6.4	5.7	4.6	5.3	5.4	5.3	7.0
Gross Domestic Product	3.3	2.9	2.5	3.1	3.2	3.2	3.2
Consumption	3.5	2.9	3.0	3.2	3.3	3.2	3.4
Residential Fixed Investment	8.1	(8.6)	(9.5)	(0.1)	3.2	3.2	4.3
Nonresidential Fixed Investment	6.7	7.6	7.0	6.0	5.6	5.3	5.1
Change in Inventories (dollars)	16.2	46.8	40.5	38.9	33.9	32.5	27.8
Exports	7.4	8.0	7.8	8.2	8.3	7.8	6.0
Imports	5.5	5.7	6.0	6.9	7.0	6.7	7.3
Government Spending	1.2	2.2	2.2	2.1	2.1	2.1	2.2
Corporate Profits[2]	13.9	18.2	5.5	6.2	7.2	7.9	8.2
Personal Income	5.5	6.1	5.6	6.0	6.2	5.9	7.0
Wages	5.6	5.7	5.3	5.9	6.1	5.7	6.7
Nonagricultural Employment	1.5	1.3	1.1	1.4	1.5	1.4	1.9
Unemployment Rate (percent)	4.9	4.7	5.0	5.1	5.0	5.0	6.2
S&P 500 Stock Price Index	7.4	8.8	8.0	7.6	8.2	8.1	9.8
Federal Funds Rate	3.7	5.2	5.2	5.2	5.0	4.9	6.6
10-year Treasury Yield	4.4	4.8	4.9	5.2	5.4	5.4	7.8
Consumer Price Index	3.5	2.9	2.4	2.5	2.5	2.5	4.4
New York State Indicators							
Personal Income[3]	5.6	6.2	5.2	5.1	5.2	5.3	6.3
Wages and Salaries[3]							
Total	7.3	6.2	5.3	4.9	4.7	4.9	6.0
Without Bonus[4]	4.5	4.4	4.5	4.3	4.2	4.1	5.6
Bonus[4]	26.7	16.7	9.1	7.8	7.3	8.5	11.4
Wage Per Employee	6.4	5.4	4.5	4.2	4.0	4.2	5.2
Property Income	4.4	7.8	5.2	4.6	4.6	4.6	6.4
Proprietors' Income	6.4	4.3	5.5	7.1	7.4	7.6	8.5
Transfer Income	0.9	5.7	4.9	5.1	6.2	6.2	6.9
Nonfarm Employment[3]							
Total	0.9	0.8	0.7	0.7	0.7	0.7	0.7
Private	1.0	0.9	0.8	0.8	0.8	0.8	0.8
Unemployment Rate (percent)	4.9	4.6	5.1	5.3	5.3	5.3	6.8
Composite CPI of New York[4]	3.7	3.4	2.6	2.5	2.5	2.6	4.4

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.

[2] Includes inventory valuation and capital consumption adjustments.

[3] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[4] Series created by the Division of the Budget.

Source: Moody's Economy.com; NYS Department of Labor; DOB staff estimates.

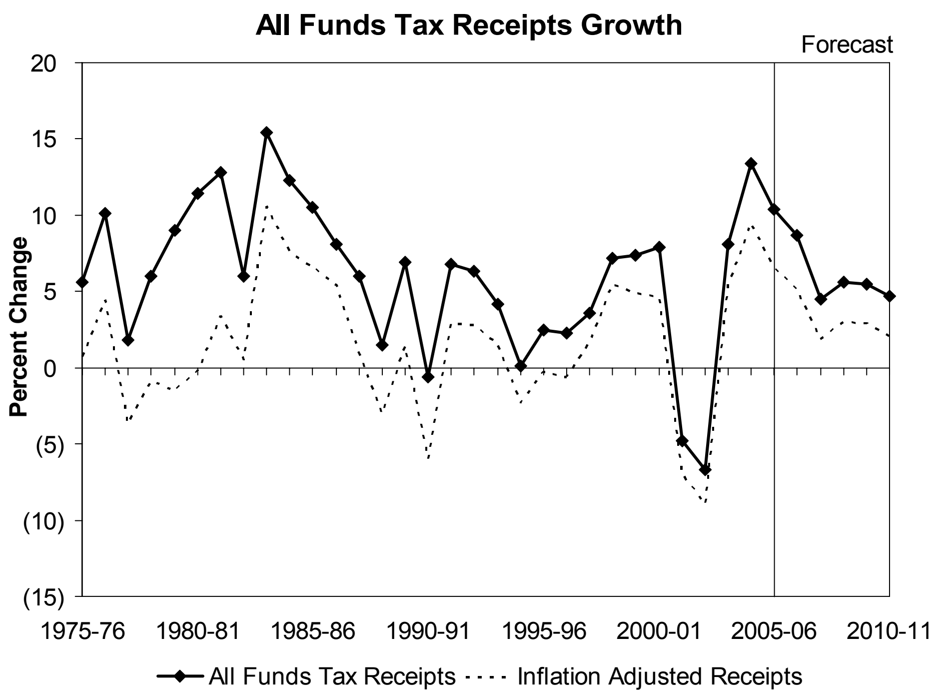
RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

All Funds tax receipts are subject to significant volatility. The main factors impacting growth include:

- changes in tax policy;
- changes in underlying economic conditions including the rate of inflation;
- changes in the structure of the economy that have an impact on the tax base (the shift from manufacturing to services, Internet purchases of taxable items);
- changes in the demographic make-up and income distribution of taxpayers; and
- unexpected shocks to the economy and taxpayer behavior.

OVERVIEW



Historically, growth in All Funds tax receipts has been very volatile, reflecting both underlying economic conditions and significant changes in tax policy. This variability is evident in the charts accompanying this section that detail changes in tax receipts over more than three decades. The Division of the Budget website (www.budget.state.ny.us) provides more detailed historical data by tax type covering the period from 1974-75 to the present.

During the mid 1970s and early 1980s, tax revenue growth rates were relatively high reflecting the inflationary environment of the times. Tax revenue growth in the mid-to-late 1980s was fueled by a bull market on Wall Street and large increases in real estate values. Tax growth dipped in the late 1980s, partly as a result of the implementation of a multi-year personal income tax reduction program. The relatively small annual average growth in receipts during the 1990s was largely due to three factors: the severe economic downturn experienced in New York during the early 1990s, reduced inflation rates, and the significant tax reductions enacted over the 1995-2000 period. The decline in tax receipts for fiscal years 2001-02 and 2002-03 was directly related to the adverse effects of the national economic recession, the decline in stock market values, and the disproportionate impact of the World Trade Center disaster on the New York economy. The decrease in receipts also reflected the continued impact of previously enacted tax reductions. The back-to-back decline in tax receipts was the most severe observed over this historical period, including the fiscally turbulent 1970s.

Tax receipts have increased significantly over the past four fiscal years. In fact, it is estimated that tax receipts have increased by 52 percent since fiscal year 2002-03. The increases in receipts exceeded expectations each year over this period as important segments of the economy grew at unexpectedly rapid rates. The recovery of the financial services industry and the growth in the number and value of real estate market transactions fueled much of the economic improvement. In addition, the relative weakness in the dollar compared to foreign currencies had a positive impact on the tourism industry, especially in New York City. Most of these positive economic trends are expected to continue but at a more modest pace, into fiscal year 2007-08, supporting relatively strong receipts growth in the upcoming and subsequent fiscal years (holding policy actions constant).

Economic expansion continued in 2005 and that factor alone supported modest growth in the receipts base. However, the rapidly accelerating real estate market in 2005 boosted receipts significantly beyond what normal economic growth in isolation would support. This had a noticeable impact on real estate transfer and personal income tax collections. The commercial real estate market downstate remains strong and has supported continued growth in the income and corporate bases in 2006-07. The residential housing market appears to have cooled in late 2006 and is expected to remain stable in 2007 and beyond. The receipt estimates are based on the assumption that there is no housing market bubble, meaning prices will retreat, but not plummet on the residential side while the commercial market remains strong. As a result, real estate transfer tax collections are expected to remain relatively flat over the next several years, after growing by nearly 110 percent over the past four fiscal years.

In addition, receipts growth during the 2002-03 to 2006-07 period has been supported by revenue actions taken primarily in 2003. The revenue supporting actions included the temporary three-year increase in personal income tax rates, the two year 0.25 percent sales tax surcharge and the replacement of the sales tax on clothing exemption with tax-free weeks. Other administrative and statutory actions taken after 2003, including more aggressive efforts to identify and recover tax revenue from non-compliant taxpayers and taxpayers taking aggressive tax planning positions, have generated significant receipts since 2002-03. The ending of the temporary quarter percent sales tax surcharge in the 2005-06 fiscal year had a negative impact on receipts. The temporary income tax surcharge continued to support receipt levels in 2005-06 and 2006-07. The income tax surcharge sunset on January 1, 2006. The elimination of these surcharges is estimated to have removed over $2 billion from the ongoing receipts base. Additionally, the State recently reinstated the permanent sales tax exemption on clothing, reducing the ongoing sales tax base by about $700 million annually.

SUMMARY OF REVENUE HISTORY

The table below reports average growth, the standard deviation in growth (a measure of dispersion around the average) and the average share of total tax receipts for the major tax sources. The table reports these data for three ten-year periods beginning with fiscal year 1975-76.

ALL FUNDS SUMMARY OF HISTORICAL RECEIPTS TRENDS
Growth and Share in Percents

	AVERAGE GROWTH 1975-2006 6.2			STANDARD DEVIATION 1975-2006 5.1			AVERAGE SHARE		
	1975-1984	1985-1994	1995-2006	1975-1984	1985-1994	1995-2006	1975-1984	1985-1994	1995-2006
Total Taxes	9.0	5.0	4.7	4.1	3.6	6.1	100.0	100.0	100.0
Personal Income Tax	11.4	5.0	6.0	6.2	5.1	8.6	48.7	51.5	55.7
Sales Tax	7.7	5.0	4.7	2.5	4.5	4.3	22.5	20.6	21.1
Other User Taxes & Fees	2.8	4.1	2.1	14.8	7.8	11.3	8.4	6.7	5.2
Business Taxes	9.2	6.6	1.7	8.9	10.8	9.6	17.6	16.9	14.7
Other Taxes	12.5	3.6	5.1	25.0	15.8	11.5	2.9	4.3	3.3

This table summarizes the most important characteristics of the State revenue structure over the past three decades.

- Average growth in total tax receipts declined from the 1970s and early 1980s, reflecting lower inflation and an overall fiscal policy favoring tax reduction.
- The personal income tax is consistently the fastest growing receipt source despite major reductions in rates and the base over this period.
- The average income tax share of total receipts has been steadily increasing, another manifestation of higher average growth in this source over the past thirty years.
- The sales tax share of total receipts has remained relatively constant over three decades.
- The business tax share has declined reflecting prior tax reduction actions and a shift toward the income tax base resulting from businesses shifting to S corporation and limited liability corporation status.
- The other user taxes share has declined, reflecting tax reductions, elimination of certain taxes and the fact that these taxes are relatively insensitive to inflationary changes in the economy.
- Overall, tax volatility has increased for the 1995 through 2006 period, reflecting several factors including: rapid growth in the economy in the 1990s, significant tax law changes, the depressing impact of September 11th and the subsequent strong economic recovery.
- The standard deviation in receipts growth (dispersion around the average) is larger than average growth for the 1995 through 2006 period. This increase in variation helps to explain the difficulty in projecting receipts over this period.

IMPACT OF PROPOSALS INCLUDED WITH THE 2007-08 BUDGET

This Budget includes legislative and administrative proposals to significantly eliminate tax loopholes and other abuses. The proposed changes include:

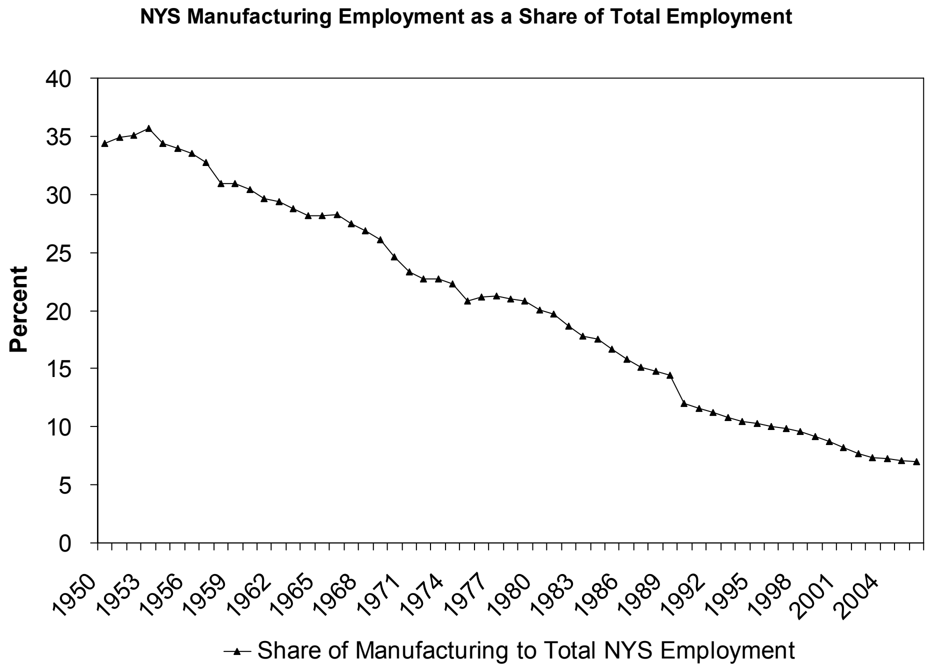
- Clarify tax provisions so that corporate taxpayers cannot shift income properly allocable to New York to other states.
- Eliminate the ability of corporate and bank taxpayers to avoid tax by participating in REITs in a manner never intended under existing statutes.
- Eliminate archaic tax provisions conveying benefits for certain taxpayers that create an uneven playing field.

If implemented in total, these actions would increase receipts by nearly $600 million annually when fully effective. The fiscal year 2007-08 impact is $511 million.

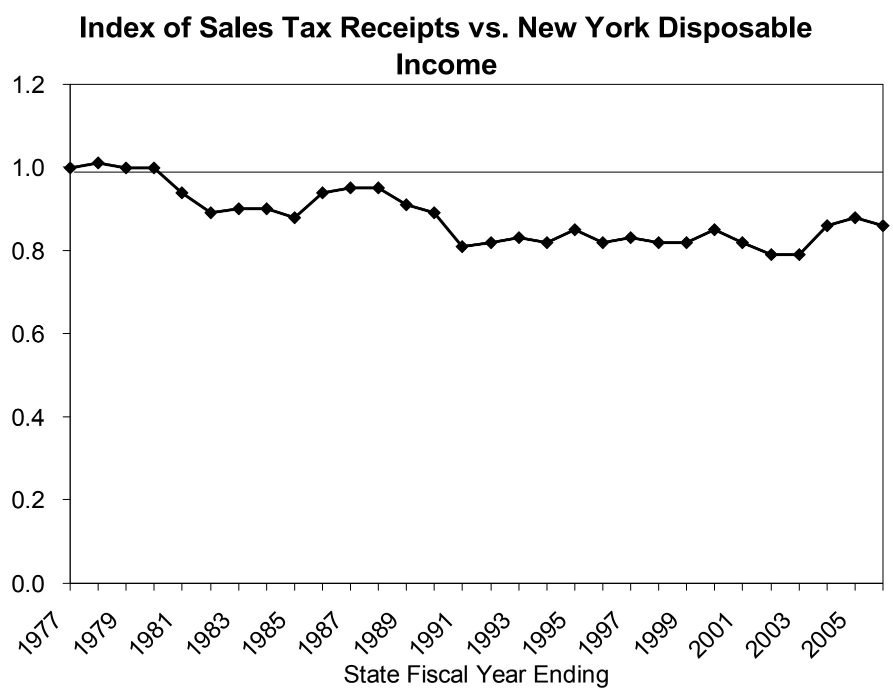
This Budget also includes a new middle class STAR program that would reduce the property tax burden for New York State taxpayers, valued at $2.5 billion when fully effective. Other tax reductions include making the low income housing credit permanent and creating a new deduction for primary and secondary school tuition.

THE ECONOMY, REVENUE AND BASE GROWTH

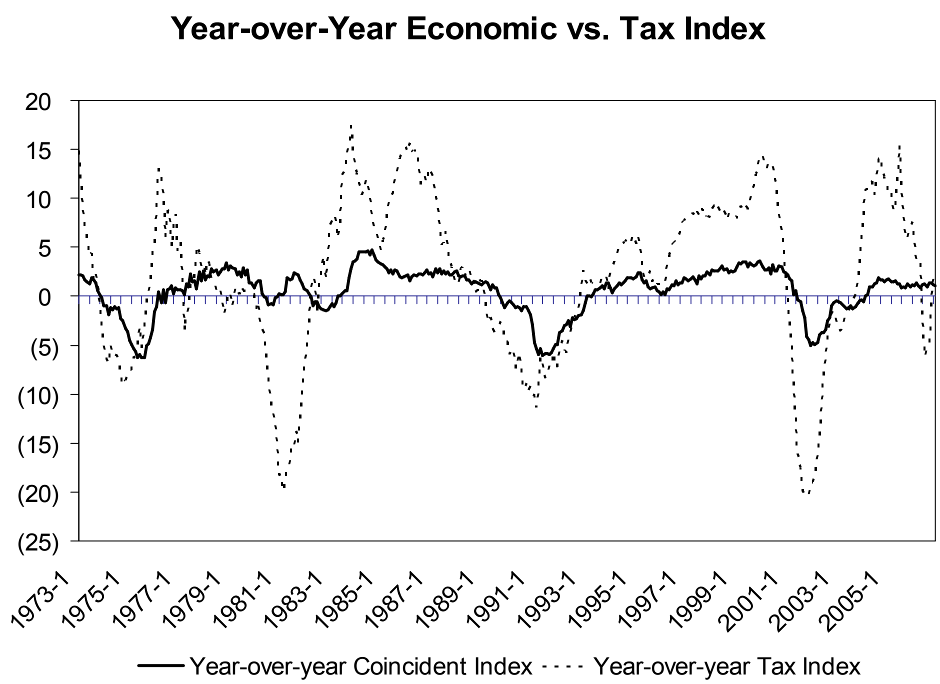
The main driver of revenue growth is the economy. The tax bases for the two most important tax sources, the personal income tax and the sales tax, are tied directly to economic activity in the form of taxpayer incomes and expenditures on taxable items. The following summary table shows that economic growth and tax revenue growth have been closely linked over the past three decades. However, tax receipt growth is much more volatile. The increased volatility is related to tax policy shifts and to changes in taxpayer behavior, as well as in the structure of the economy. As the structure of the economy changes, the New York Tax Law often does not change in tandem, and this can lead to changes in the relationship between the economy and tax receipts. For example, the manufacturing sector of the New York economy (and for the nation as a whole) has been declining relative to other sectors. The accompanying chart shows the share of employment in the manufacturing sector to be falling almost continuously since the 1950s. New York Tax Law was designed when manufacturing was a more dominant sector of the economy. Since this underlying tax structure survives but the economy has changed, there is a growing disconnect between growth in the economy and growth in taxes.



Looking at sales tax collections relative to income, the ratio is shrinking somewhat. This suggests that, at least in part, more income is being spent on non-taxable goods and services. Since the share of services in consumer budgets has been increasing and services are only selectively taxed under the sales tax, this ratio is expected to fall holding other factors constant. This is the result of a tax system designed around the production and consumption of tangible goods.



The Division of the Budget (DOB) has developed two indices to aid in our analysis of revenue trends; one measures the current state of the New York economy and is constructed from several underlying economic series (see Economic Backdrop section of this volume); the second index captures the underlying condition of the revenue base and is composed of the major economically sensitive tax sources (adjusted for law changes). As the accompanying figure illustrates, there is a clear positive relationship between the economic and revenue series. However, it is also clear that the revenue series variation is much larger than that of the economic series. What seems clear is that revenues shrink more rapidly during recessions than what the economic index alone would suggest. Conversely, the revenue index grows more rapidly in expansions. Consistent with the discussion above, it also appears to be the case that the underlying relationship between the economy and tax revenue has been changing over time. For example, over the most recent economic expansion, receipts growth as measured by the DOB index has been growing much faster than the economic index. This suggests that factors not measured by an economic index, such as taxable capital gains realizations, have played a prominent role in the current run-up in receipts. This distorts the measured relationship between the series and the ability to predict receipts using normal measures of economic activity.

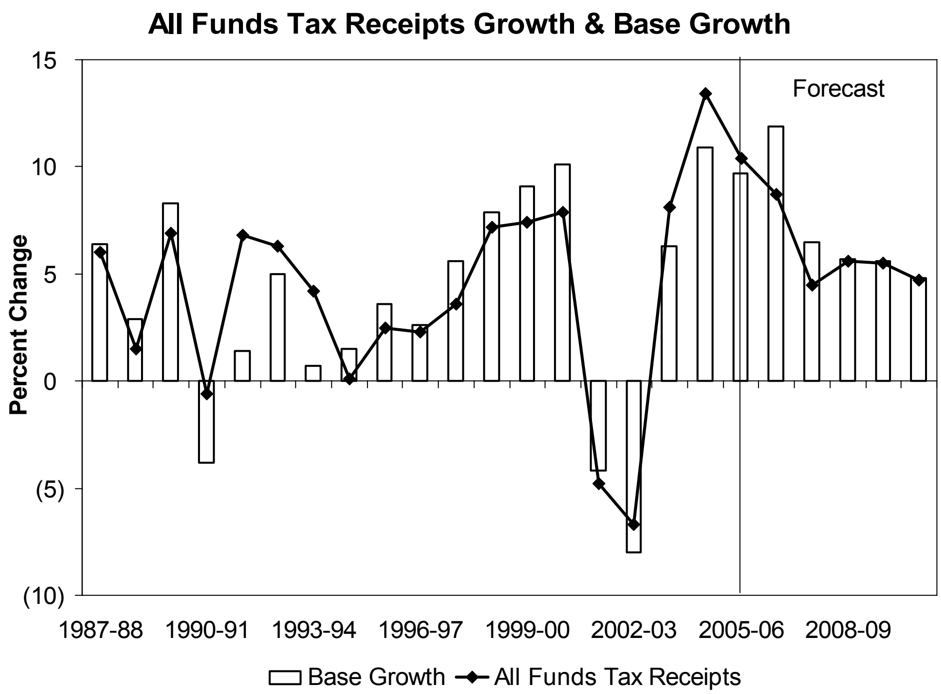


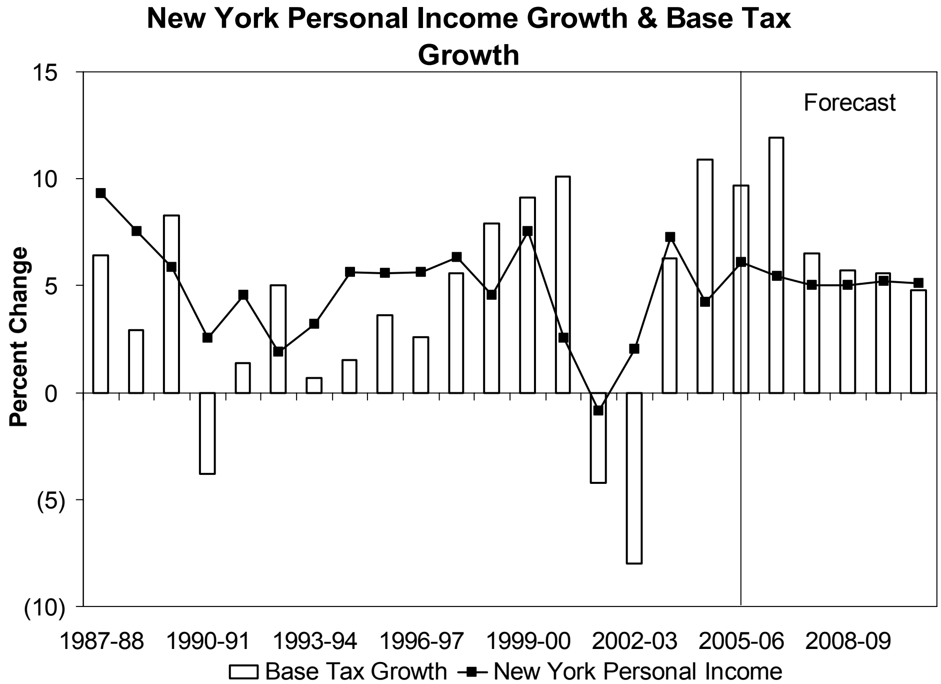
Governmental Funds
Actual and Base Tax Receipts Growth
(percent growth)

State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1987-88	6.2	6.4	2.2
1988-89	1.6	2.9	(1.8)
1989-90	6.8	8.3	2.7
1990-91	(0.8)	(3.8)	(7.7)
1991-92	7.2	1.4	(1.6)
1992-93	6.1	5.0	1.9
1993-94	4.3	0.7	(1.9)
1994-95	0.1	1.5	(1.2)
1995-96	2.6	3.6	0.6
1996-97	2.0	2.6	0.2
1997-98	3.7	5.6	4.0
1998-99	7.2	7.9	5.5
1999-00	7.5	9.1	5.6
2000-01	7.9	10.1	7.1
2001-02	(4.9)	(4.2)	(5.7)
2002-03	(6.7)	(8.0)	(10.0)
2003-04	8.7	6.3	3.5
2004-05	12.9	10.9	7.3
2005-06	10.4	9.7	5.9
2006-07	8.7	11.9	9.1
2007-08	4.5	6.5	3.9
2008-09	5.6	5.7	3.1
2009-10	5.5	5.6	3.0
2010-11	4.7	4.8	2.2
	Actual Change	**Base Change**	**Adjusted Base Change**
Historical Average (87-88 to 05-06)	**4.4**	**4.0**	**0.9**
Forecast Average (06-07 to 10-11)	**5.8**	**6.9**	**4.3**
Forecast Average (07-08 to 10-11)	**5.1**	**5.6**	**3.0**
Recessions	**1.6**	**(0.6)**	**(3.3)**
Expansions	**4.5**	**5.3**	**2.1**

As the above table reports, over the past three decades, tax receipts growth has averaged 4.4 percent. However, the volatility around average growth has been significant, with receipt changes ranging from a positive 12.9 percent in fiscal year 2004-05 to a negative 6.7 percent in fiscal year 2002-03. Much of this volatility was the result of law changes that can distort year-to-year growth comparisons. Base growth, adjusting for statutory and administrative changes, has averaged 4.0 percent over the period from fiscal year 1987-88 to fiscal year 2005-06. Even after adjusting for the impact of law changes, base growth has been quite volatile. The standard deviation around average base growth was 5.2 percent over the period from 1986-87. This volatility reflects significant shocks to the economy experienced over this period as well as changes in taxpayer behavior and changes in the performance of certain industries critical to revenue growth. It is projected that base growth will average 5.6 percent over the 2007-08 to 2010-11 forecast period. As stated above, this receipt forecast is consistent with the growth typical at this stage of an economic expansion.

Despite these factors disturbing the tax-to-economy relationship, there remains a relatively strong relationship between growth in the economy and tax receipts adjusted for law changes. However, as reported above there is significant volatility in the relationship; even after correcting for law changes, unusual factors and changes in taxpayer behavior act to disturb this relationship over time. The receipts base has grown with the economy, but at a slower overall pace over the past three decades. The slower growth reflects, in large part, the policy choices to lower the tax burden facing New Yorkers over this period. Inflation-adjusted All Funds receipts grew by 65.7 percent over the past 30 years, while real personal income increased by 69.4 percent. The slightly slower growth rate in receipts reflects the predominant policy choice over this period, which was to reduce tax burdens.





As already stated, All Funds receipts can be adjusted for the estimated value of tax policy and administrative changes to obtain an approximate base receipts series. Growth in base receipts is higher than for actual receipts in most years reported, reflecting the impact of tax reductions in lowering actual receipts growth. The impact of the Wall Street boom on receipts growth in the late 1990s and into 2000-01 is much more evident in base growth. This is as expected, given the fact that tax reductions enacted over the 1995-2000 period reduced actual revenue growth substantially. However, this trend reversed itself when taxes were temporarily increased in 2003 and caused actual growth in receipts to exceed base growth. It is expected that over the 2007-08 to 2010-11 period, base growth will closely match actual receipts growth as tax cuts enacted in 2006-07 and loophole closers proposed with this Budget roughly cancel out each other over the forecast period (see accompanying graphs).

Critically, it is clear from the graph of personal income and base tax receipts growth that the Division of the Budget Financial Plan forecast of base receipts matches closely with the economic forecast. Past experience suggests (as indicated on the chart) that this is a loose-fitting relationship, but appears to hold, on average, over time. It is to be expected that in any forecast year there will be a relatively large error in the forecast, but that over the whole forecast period, the error will average out. Of course, this presumes the DOB economic forecast is accurate.

ALL FUNDS TAX RECEIPTS GROWTH (percent)	Personal Income Tax	Sales Tax	Other User	Business Tax	Other Taxes	Total Taxes	NY Personal Income Growth*	NY CPI
Nominal								
Total Growth (75-76 to 05-06)	680.3	421.0	169.7	317.2	441.7	486.7	516.7	264.0
Historical Average (75-76 to 05-06)	7.4	5.8	3.0	5.7	7.0	6.2	6.3	4.5
Standard Deviation (75-76 to 05-06)	7.2	4.0	11.3	10.0	17.9	5.1	3.0	2.4
Adjusted for Inflation								
Total Growth (75-76 to 05-06)	120.4	47.2	(23.8)	17.8	53.0	65.7	69.4	
Historical Average (75-76 to 05-06)	2.9	1.4	(1.2)	1.3	2.7	1.8	1.8	
Standard Deviation (75-76 to 05-06)	6.4	4.3	11.4	9.7	17.9	4.9	2.1	

* Reported for calendar years. Period range for historic average and standard deviation is 1976 through 2005.

IMPACT OF INFLATION

When receipts are adjusted for inflation, the impact of economic contractions and the corrosive impact of inflation on real growth in receipts become much more apparent. This is illustrated clearly in the first graph in this section. There were significant consecutive declines in real receipts growth during the 1970s, as New York suffered through the mid-1970s recession and the oil shocks of 1973 and 1980. The 1970s and early 1980s were characterized by significant inflation including periods of double digit annual price increases. In addition, the State began a multi-year program to reduce the State's relative tax burden. The inflationary environment changed dramatically in the 1980s and the associated impact on receipts growth became more muted. The negative real growth rates in the late 1980s and early 1990s reflect the large 1987 personal income tax cut and the 1990 economic recession. The declines in the rate of growth in the mid-1990s are due to slow economic growth in 1994 and 1995 and the continuation of the multi-year tax reduction program started in 1995.

The real declines in receipts for 2001-02 and 2002-03 were the most significant of the period and, again, reflect the impact of the national recession, the deflation in stock values, the adverse impact of September 11th, and the impact of previously enacted tax cuts. In fact, the 2001 recession had a far larger negative impact on tax receipts than any other recession over the past 30 years. The graphs in this section show that, adjusting for tax policy changes and inflation, the decline in fiscal year 2001-02 and 2002-03 receipts was much more severe than for the other economic downturns of the previous three decades.

Inflation-adjusted growth in actual receipts rebounded significantly beginning in fiscal year 2003-04 and is anticipated to remain robust in the current fiscal year (8.3 percent), again reflecting improvements in real economic conditions that much more than compensated for the full phase-out of tax policy actions taken to support growth imposed in recent years. Base growth adjusted for inflation increased by 8.8 percent in 2006-07.

It is expected that growth in inflation-adjusted tax receipts will be slightly above the historical average for fiscal year 2007-08 (4.7 percent versus the historical average of 4.4 percent). Inflation-adjusted growth declines from 2006-07 through 2010-11 reflect the impact of tax reductions imposed in 2006-07 as well as a return to growth consistent with the current economic forecast.

IMPACT OF POLICY AND ECONOMICS ON TAX SHARES

ALL FUNDS TAX RECEIPTS SHARES
(percent)

State Fiscal Year Ending	Personal Income Tax	Sales Tax	Other User Taxes & Fees	Business Taxes	Other Taxes
1992	50.0	20.2	6.9	19.1	3.7
1997	50.7	21.0	6.1	18.8	3.4
2002	60.2	20.1	4.7	12.2	2.8
2007	59.1	18.6	4.9	13.9	3.5
2011	61.5	17.8	4.3	13.2	3.2

The table and charts (more detailed tax data are available in the *Data Appendix* available at www.budget.state.ny.us) in this section illustrate both the shift in tax shares over time among the major tax sources and the growth in receipts for the primary tax sources that make up the revenue pie. Three additional charts for the income, sales, and corporate franchise taxes provide timeline indicators for major tax law changes, economic downturns, the recent stock market boom, the 2001-02 downturn, and subsequent economic rebound, all of which are major factors that affected these particular tax sources over the past 30 years. The charts also adjust for the impact of inflation, making comparisons of the high inflation environment in the 1970s with the current period of low inflation possible.

The share of total tax collections attributable to a tax source is related to: economic activity, tax policy shifts, changes in taxpayer behavior, and structural changes in the economy. For example, the temporary personal income tax and sales tax increases adopted in 2003, holding other factors constant, increased receipts for these tax sources beyond what could be expected from economic growth alone and the tax shares for these sources could be expected to increase. As the temporary tax changes were phased out in 2005 and 2006, the impact on tax shares was reversed, holding other factors constant. Changes in share due to law change can be spread over multiple years because it often takes taxpayers time to adjust to law changes. As a result, the 2004-05 impact of the income tax increase appears much stronger than in 2003-04 as taxpayers became more aware of their increased liability and, consequently, increased their cash payments, and it is expected the phase-out of the tax surcharges will continue to have a cash impact (though less significant) in fiscal year 2007-08 as taxpayers continue to adjust ongoing payments to the phase out of the surcharges.

Other policy changes, when interacting with economic change, can have more long-term impacts on tax shares. For example, part of the increase in the personal income tax share and decline in the corporate tax share in recent years can be traced to the movement of business income from the corporate to the individual income tax base. This movement was facilitated by State and Federal actions allowing for the formation of limited liability companies (LLCs) and S corporations. These entities have many characteristics of a business, but the flow of income to members (or shareholders) is taxed under the personal income tax. Over the past decade, the number of LLCs in New York has increased from zero in 1993 to over 250,000 in 2004. In addition, the growth in S corporations, which are companies with a small number of shareholders, has also been dramatic. New York first allowed S corporation status in 1981, but the number of S corporations grew dramatically in the 1990s (from over 193,615 in 1990 to 335,000 in 2003). The combination of changing taxpayer behavior (filing status), aided by changes in policy facilitating the change in behavior, has resulted in significant changes in tax shares. In this case, the business share of total taxes shrinks and the personal income tax share increases.

In other instances, changes in the economic environment can be so large as to conceal the impact of large tax policy shifts. For example, despite the significant income tax reductions of the late 1990s, income tax growth remained relatively high. This was partially the consequence of the rapid income growth associated with the large increases in financial service incomes and the rapid appreciation in equity prices. This shifted the income tax share upward despite the large reductions in income tax rates. The large declines in financial service incomes in 2002 and 2003 reduced the income tax share. The most recent multi-year rebound on Wall Street, along with the housing price boom has helped return the income tax share to historic highs in 2006-07.

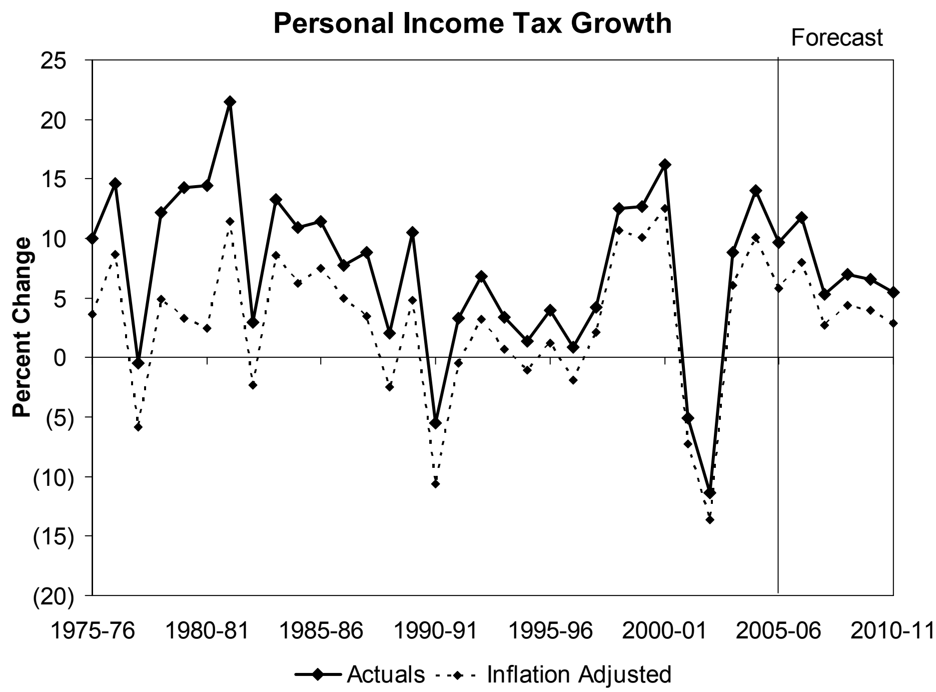
In other cases, unpredictable shocks to the revenue base can produce changes in tax shares. The surge in corporate audit collections in recent years far exceeded expectations. This has led to an unexpected increase in the business tax share of total tax receipts. The business share is expected to remain relatively constant, reflecting the actions proposed with this Budget to close corporate tax loopholes and improve audit efficiency.

It is also often the case that economic and policy changes reinforce or magnify the impact of each change taken in isolation. This is especially true when there are unanticipated changes in economic conditions. Current events confirm this point. It now appears that the combination of renewed and partially unexpected economic activity, especially in the real estate and financial services sectors, drove up tax payments by increasing the impact of the temporary income tax rate increases imposed in 2003 significantly beyond what was originally anticipated. This served to increase the share of receipts from the income tax. The table earlier in this volume shows the significant impact these surcharges had on the receipts base. As the surcharge was fully phased out as of January 1, 2006, the impact on the income tax share should have been reversed in 2006-07 and beyond, holding other factors such as economic conditions constant.

In addition, structural and demographic changes in the underlying economy can significantly impact the share of a receipt source. For example, the long-term decline in smoking per capita for health related reasons has had an important negative impact on cigarette tax collections. The cigarette tax discussion in this volume provides a good description of this case. Another more rapidly developing change in the economy impacting receipt shares is the shift to Internet purchases of commodities subject to the sales tax. In many cases, these sales are beyond the reach of the State's efforts to collect tax. Holding other factors constant, the increase in Internet purchases of taxable goods from Internet retailers with no New York nexus reduces sales tax collected and the sales tax share. These and other changes in consumer tastes or in technology can have important impacts on tax receipts and the share of total tax received from a particular source.

Competitive pressures with other taxing jurisdictions also have had a long-term impact on the tax structure in New York. A half century ago, New York was a dominant economy in the United States with more population, employment, and income than any other state. The gradual erosion of that dominant position, along with continued competitive pressures on a global scale, has led New York policy makers, primarily in the last three decades, to change the State tax structure by lowering tax rates, providing special incentives to promote certain industries, establishing tax preferred regions, and taking other actions to promote competitiveness with other states. As is reported in the section on comparative tax burdens contained in this volume, competition among states has tended to lead to more equality in tax burdens across states.

PERSONAL INCOME TAX

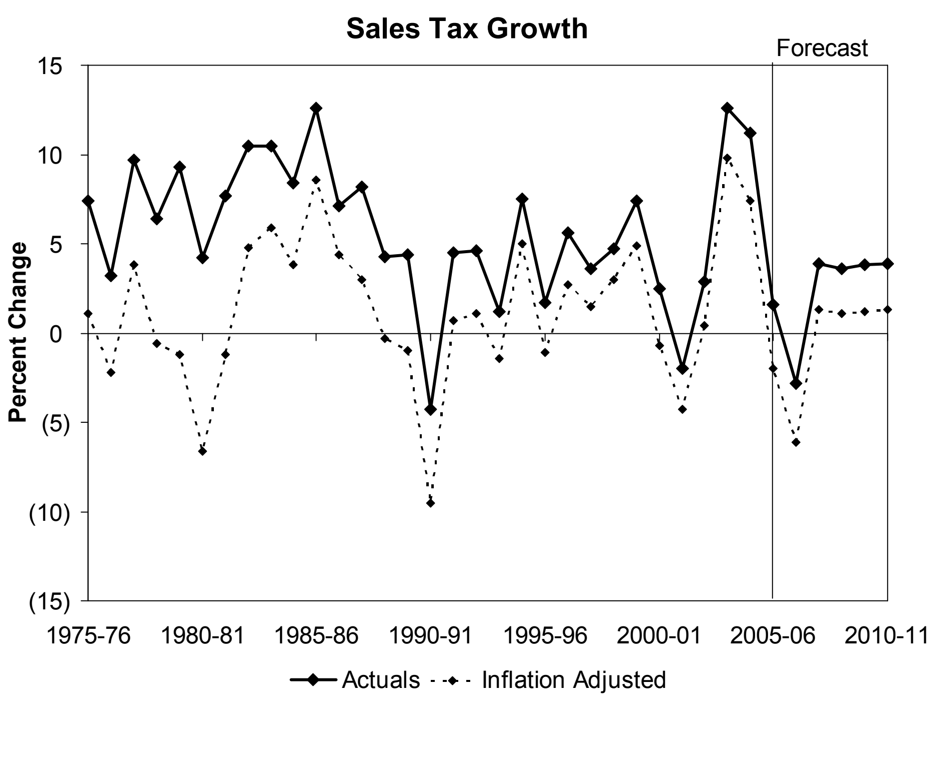


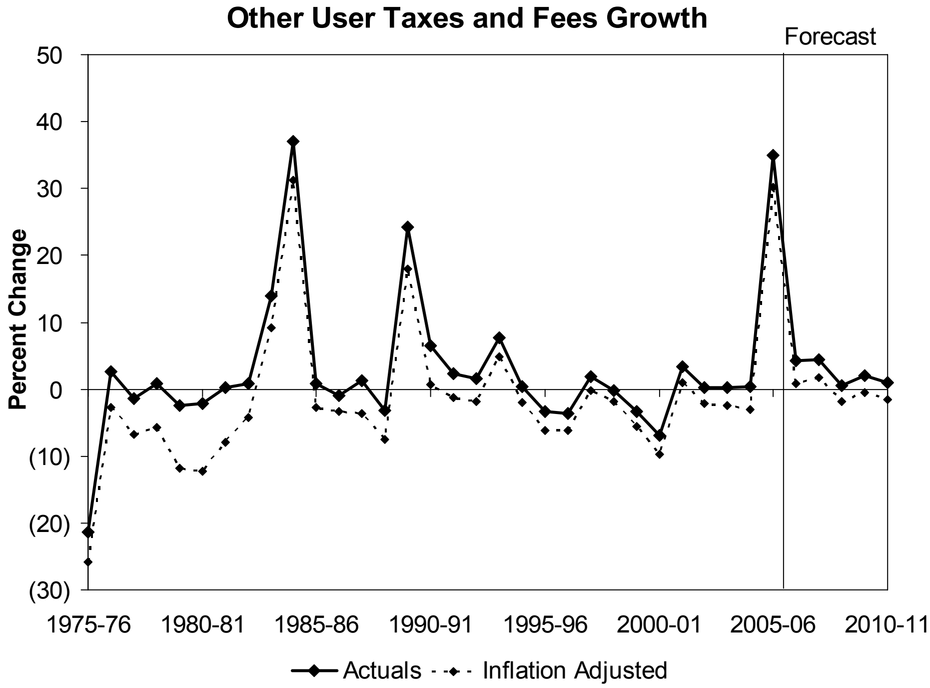
Personal income tax collections are strongly affected by both the economic cycle and changes in tax rates, as can be seen in the accompanying charts. During periods of economic growth, collections from the income tax tend to increase more rapidly than the overall economy. The income tax is more sensitive to inflation than most of the tax base as nominal increases in incomes tend to move taxpayers into higher tax brackets over time. During recessionary periods, income tax collections continue to increase but at a lower rate, with the exception of 2001-02 and 2002-03, when the September 11th attacks led to a more concentrated and lengthy economic impact in New York that led to actual declines in receipts and the income tax share of total tax. Holding economic factors constant, changes in rates have an obvious effect. During the tax cut programs of 1987-89 and 1995-97 receipts growth slowed. The tax cuts of 1995-97 were partially offset by strong wage growth, particularly in financial sector bonuses, and, as a consequence, tax collections growth remained positive. When rates were increased with the temporary surcharge in 2003, receipts surged for fiscal years 2004-05 through 2005-06, sending the income tax share back up by reinforcing underlying income growth.

The share of total tax receipts derived from the personal income tax has increased to historically high percentages in recent years, reaching 60 percent for the first time in 2000-01. In recent years, growth in employment and rapid increases in the income of high-income individuals drove the income tax share upward, while the shares of most other tax sources have declined (See Economic Backdrop section). This upward shift in share was partially reversed in 2001-02 and 2002-03 as the income earned by high-income individuals, in the form of bonuses, stock options, and taxable capital gains, declined significantly, due to a depressed economy and ailing equity markets. As a result, the income tax share of All Funds tax receipts fell to 57 percent in fiscal year 2002-03. The share began to rebound in 2003-04, reflecting a marked recovery in these areas of economic activity and the impact of the temporary income tax surcharge. This share increase continued in 2004-05 and 2005-06 as the full impact of the surcharge materialized and income growth continued.

The estimated personal income tax share is expected to remain roughly stable in 2006-07, reflecting the opposing forces of the phase-out of the surcharge and continued economic conditions. As the New York economic recovery continues over the Financial Plan horizon, growth in wages and other personal income components are projected to continue at historically average rates. Estimated capital gains growth is expected to remain positive through 2007, but to slow as the real estate market cools. The temporary tax increases imposed in 2003 have been fully phased out. On balance, personal income tax growth is expected to average 7.2 percent over the 2006-07 to 2010-11 period. With overall receipts expected to grow at a 5.8 percent average over the forecast period, the income tax share is expected to increase modestly to more than a 60 percent share of total receipts by fiscal year 2010-11.

USER TAXES AND FEES

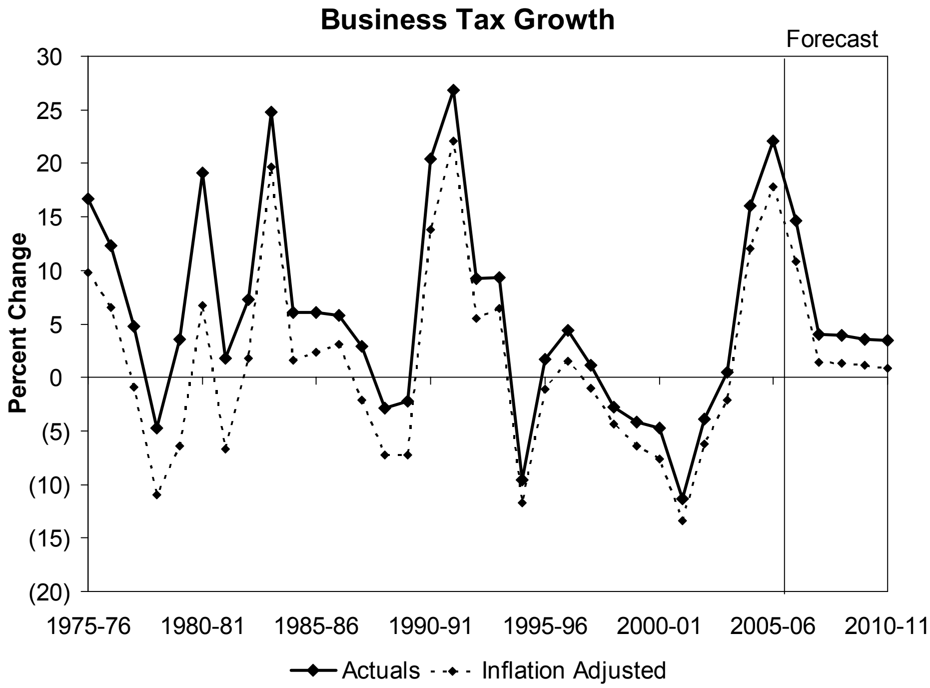




Overall, user taxes and fees have declined as a share of total taxes since the early 1970s, reflecting, in part, that such taxes tend to be less sensitive to changes in the income of State residents than does the personal income tax. In addition, user taxes, such as the taxes on cigarettes, motor fuel and alcoholic beverages, are taxed at rates fixed in statute per quantity of the product consumed. These taxes are not very sensitive to overall price changes. As a result, during periods of economic expansion, they tend to grow more slowly than other tax sources that include price increases in their base and they tend to decline less rapidly during economic downturns. As a result, changes to the share of total taxes represented by user taxes are often a product of volatility in other more economically sensitive taxes. The sales tax share increased in 2003-04 and 2004-05, reflecting revenue actions temporarily increasing the rate and eliminating the exemption on clothing. The percentage share of the sales tax to total receipts is expected to decrease modestly in 2006-07 and the outyears of the Financial Plan since the permanent clothing exemption went back in to effect on April 1, 2006. The share of user taxes is expected to fall to around 18 percent of total receipts by 2010-11.

In general for this category, periods with low- or negative-growth rates coincide with recessionary periods (1980-82, 1990-92, 2001-02) or with a major policy shift such as the first year of the exemption on clothes and shoes. Higher growth rates are associated with periods of recovery or sustained economic growth. Sales tax growth averaged 5.8 percent over the 1975-76 to 2005-06 period. For the 2007-08 Budget planning horizon, average growth of 2.5 percent is assumed. Base growth over the forecast period is associated with a continued economic expansion, primarily increases in the employment and income base.

BUSINESS TAXES

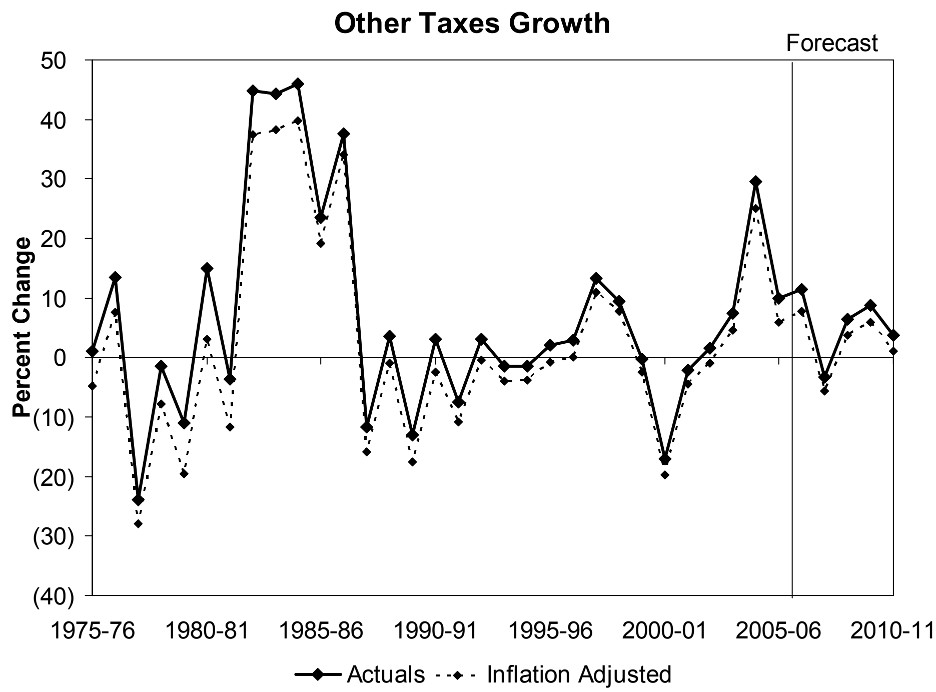


The business tax share of total taxes is very volatile, as a result of the significant variability of taxable business profits and reported tax liability, but has declined in recent years partially due to reductions in tax rates and the base subject to tax. The volatility inherent in business taxes means that the business share of total taxes fluctuates in an unpredictable manner.

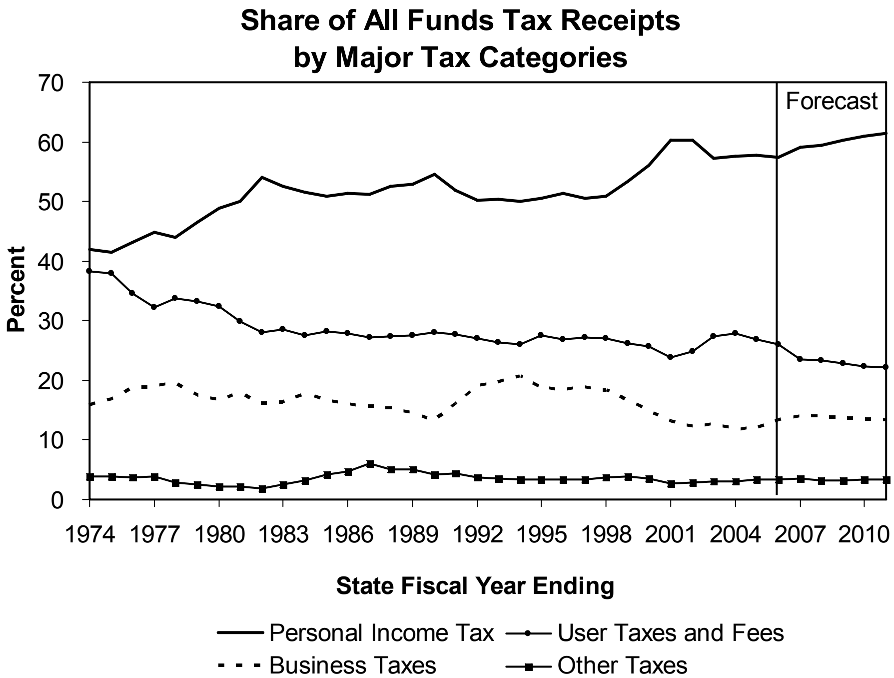
The overall volatility of business tax collections is largely the result of intricacies of the Tax Law and timing issues associated with tax payments made by business taxpayers and, more recently, reflects the impact of significant tax reductions. Although collections tend to decline during periods of recession, some of the most significant periods of quarterly growth occurred during the recession from 1990 to 1992. The growth during this period is largely explained by the imposition of a 15 percent business tax surcharge between 1990 and 1993. Additionally, collections display significant volatility during periods of consistent economic growth. Collections displayed almost no growth during the Wall Street boom of the late 1990s, which may be explained by aggressive tax planning by corporations. In addition, a significant fraction of new businesses are being formed as LLCs or S corporations, and the income from these companies is primarily taxed under the personal income tax as discussed above. The graph and associated website tables also reveal that the impact of tax cuts and tax increases tends to have a lagged effect on collections growth. Business tax growth averaged 5.7 percent for the past 30 years.

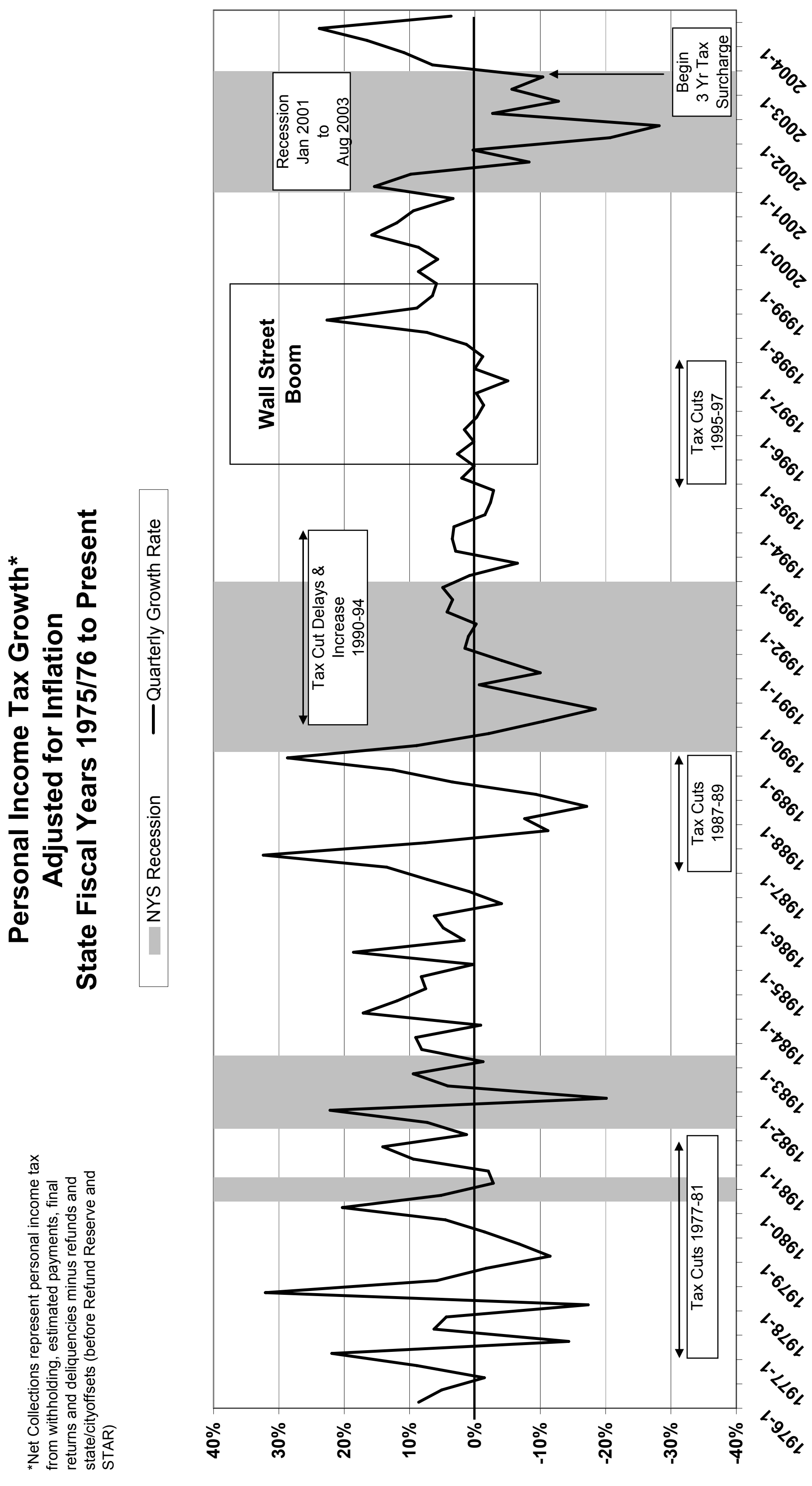
Business tax collections have surged over the last three fiscal years, reflecting at least in part the growth in corporate profitability over this period and the working off of prior period losses. More importantly, corporations have made unusually large payments on prior year activity (audit and compliance) in the past three fiscal years. The unexpected surge in receipts may also be due to changes in Federal corporate tax policy that encouraged the recognition of income to take advantage of preferential tax treatment. The cumulative growth in 2006-07 business tax receipts is the largest in at least two decades. This growth increased the business tax share to more than 13 percent of total tax receipts. The 2007-08 Budget assumes average growth of 5.9 percent through 2010-11. The business tax share can be expected to shrink only modestly given proposals included with this Budget to eliminate corporate loopholes and eliminate anachronistic sections of Tax Law.

OTHER TAXES



The share of other taxes has been dominated by the repeal of the real property gains tax and the gift tax, and the reductions in the pari-mutuel tax and the estate tax. Average growth of 4.4 percent is expected for this tax category over the 2006-07 to 2010-11 period. Very large growth in estate tax and the real estate transfer tax receipts in fiscal year 2005-06 and 2006-07 to date reflect the rapid escalation in real estate values in recent years and the fact that several very large estates have been closed in the past three fiscal years. It is expected that growth in real estate transfer tax receipts will slow somewhat, reflecting a modest cooling in the real estate market. Estate tax collections return to a more normal level, consistent with expectation of a more normal (average) number of large closed estates per fiscal year.


Share of All Funds Tax Receipts
by Major Tax Categories
Forecast
Percent
70
60
50
40
30
20
10
0
1974 1977 1980 1983 1986 1989 1992 1995 1998 2001 2004 2007 2010
State Fiscal Year Ending
Personal Income Tax
User Taxes and Fees
Business Taxes
Other Taxes



Personal Income Tax Growth*
Adjusted for Inflation
State Fiscal Years 1975/76 to Present
NYS Recession
Quarterly Growth Rate
*Net Collections represent personal income tax from withholding, estimated payments, final returns and deliquencies minus refunds and state/cityoffsets (before Refund Reserve and STAR)
Tax Cuts 1977-81
Tax Cuts 1987-89
Tax Cut Delays & Increase 1990-94
Tax Cuts 1995-97
Wall Street Boom
Recession Jan 2001 to Aug 2003
Begin 3 Yr Tax Surcharge
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
1976-1
1977-1
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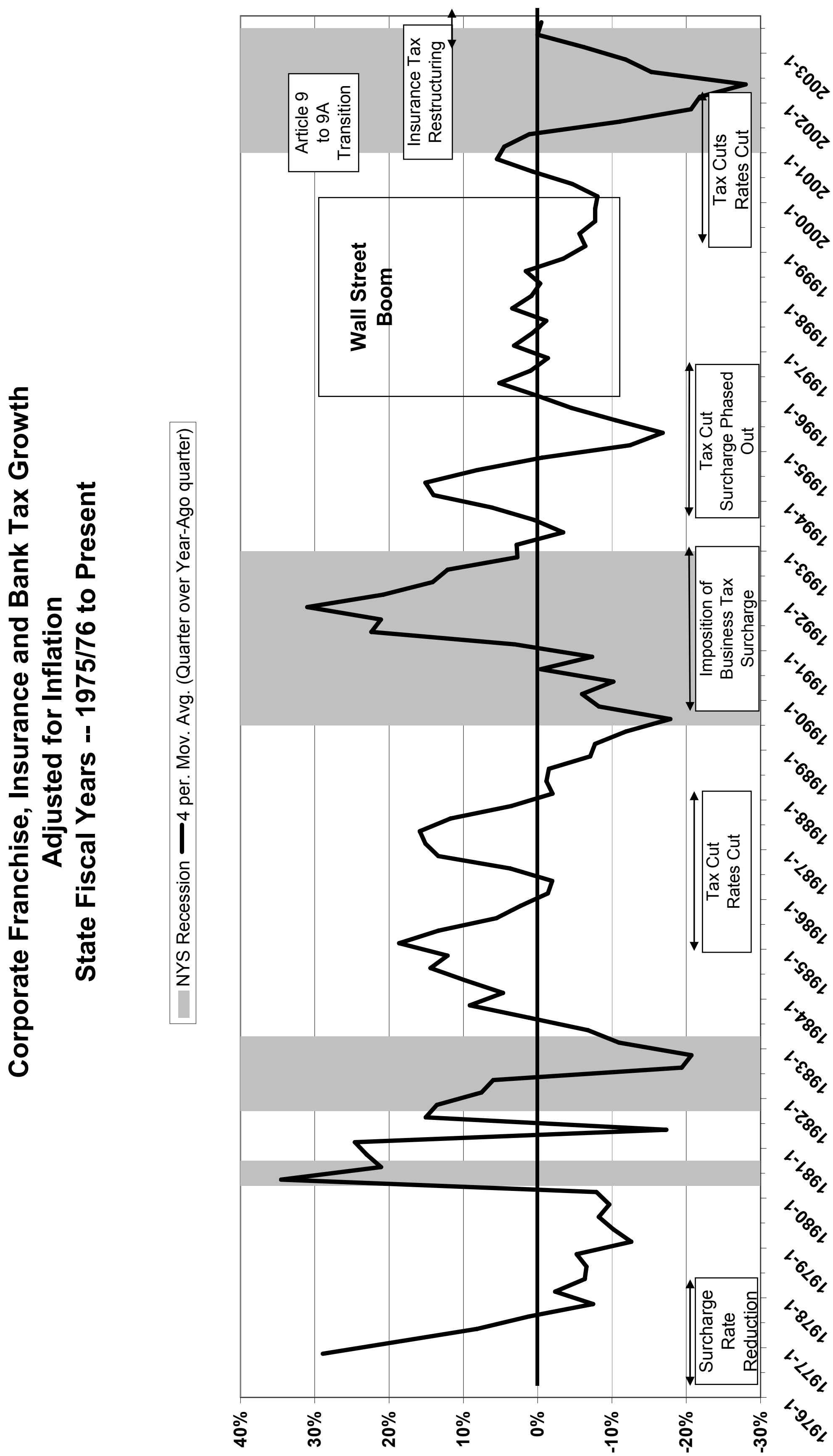
Corporate Franchise, Insurance and Bank Tax Growth
Adjusted for Inflation
State Fiscal Years -- 1975/76 to Present
NYS Recession
4 per. Mov. Avg. (Quarter over Year-Ago quarter)
40%
30%
20%
10%
0%
-10%
-20%
-30%
1976-1
1977-1
1978-1
1979-1
1980-1
1981-1
1982-1
1983-1
1984-1
1985-1
1986-1
1987-1
1988-1
1989-1
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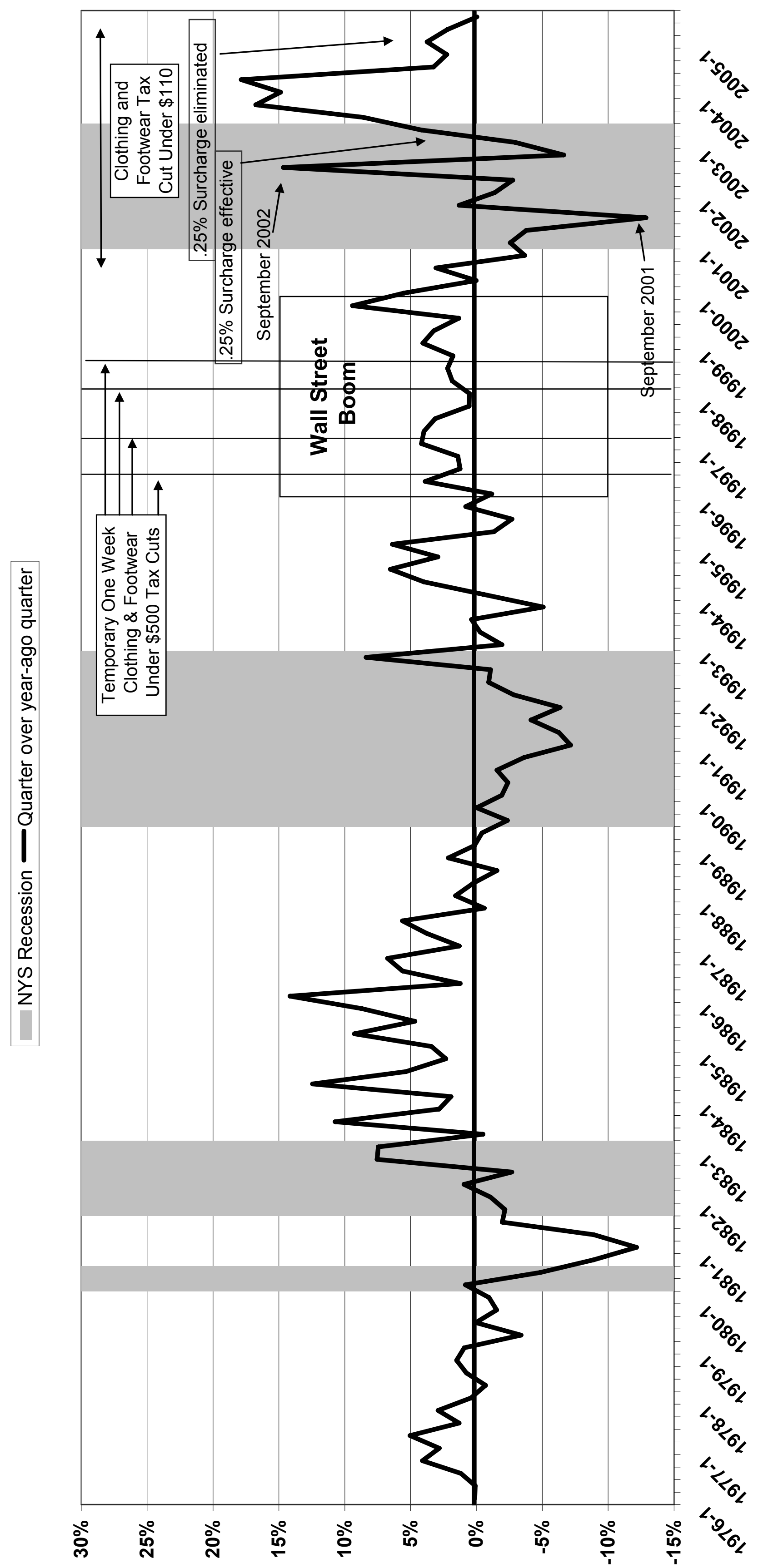
1991-1
1992-1
1993-1
1994-1
1995-1
1996-1
1997-1
1998-1
1999-1
2000-1
2001-1
2002-1
2003-1
Surcharge Rate Reduction
Tax Cut Rates Cut
Imposition of Business Tax Surcharge
Tax Cut Surcharge Phased Out
Wall Street Boom
Tax Cuts Rates Cut
Article 9 to 9A Transition
Insurance Tax Restructuring

Sales Tax Growth
Adjusted for Inflation
State Fiscal Years -- 1975/76 to Present



COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

An important consideration in tax policy decisions in New York State, and by extension in setting Budget priorities, is the position of the State in terms of state and local tax rates and bases relative to other states. An emphasis on tax reduction over the past twenty-five years has modestly reduced the disparity between New York State tax rates and burdens and those of the rest of the nation. However, local taxes in New York State remain very high relative to other states.

This Budget recommends tax actions that are specifically designed to lower the local tax burden, including:

- a multi-year $6 billion plan to reduce local property taxes through the STAR program, with a specific focus on middle-class taxpayers;
- changes in education aid programs that will reduce local taxing pressures in many fiscally distressed and highly taxed localities; and
- a continuation of provisions to reduce local tax burdens associated with Medicaid.

The data presented here suggest there is pressure on states to remain competitive with respect to tax policy. This is evidenced by the gradual clustering over time of states around the national average tax-to-income ratio. However, there is also a strong tendency for a state tax position to be highly persistent over time; this means movements towards the average have been slow. The persistence most probably reflects a combination of localized spending pressures and priorities and different State and regional attitudes towards tax policy.

Several important points on comparative tax structures can be seen by examining the accompanying tables and figures.

TOTAL STATE AND LOCAL TAXES

- Overall, state and local tax structures are broadly similar in both the taxes imposed and the rates applied. Average rates measured by the tax-to-income ratios are also roughly equivalent across states, especially when aggregating both state and local taxes together.
- The variability across states within each category of tax (e.g., income, sales, or property taxes examined in isolation) is greater than the dispersion for taxes when examined in the aggregate (all State and local taxes added together). For example, a fairly large number of states have excluded the personal income tax from their fiscal policy mix; a smaller subset have excluded corporate taxes, and a few have no appreciable sales tax imposed.
- In general, it appears that the spread of state and local tax burdens across states has been narrowing over time. This may reflect both competitive pressures to keep taxes in line with other states, and the more widespread use of income taxes nationwide.
- The national average State and local tax-to-income ratio has remained remarkably stable over time and significantly below that of New York.
- The tax-to-income ratio for New York exceeded the national average by $4.96 per $100 of personal income, or 47.1 percent in 1977. By 2004, the gap was still $3.46, or 33.6 percent above the national average.

State Taxes

- New York is an average tax state when looking only at state taxes.
- Taxes per $100 of personal income actually declined from $6.75 in 1977 to $6.21 in 2004.
- The New York ranking in terms of State taxes went from 10th highest in 1977, to 30th highest in 2004.
- The State tax burden as measured by the ratio of State taxes to income is actually modestly below the national average.
- The dispersion of State tax burdens has narrowed more noticeably than has the dispersion of local tax burdens implying that competitive pressures are more intense at the State level.
- New York's status as a higher-than-average state and local combined tax burden state is due to higher-than-average local tax burdens.

Local Taxes

- The proposals in this Budget will continue and significantly expand the STAR program for middle class taxpayers in order to reduce this differential.
- At least a portion of the significant local tax burden in New York is due to the large portion of sales tax retained by localities in New York. This contrasts sharply with other states and reflects, at least in part, the need at the local level in New York for receipts to pay for the local share of Medicaid. The large local Medicaid share in New York was addressed as part of the local Medicaid relief program enacted with the 2005-06 Budget. The cost of the Medicaid program is gradually being shifted to the State and should act to reduce taxing pressures at the local level over time.
- New York City uniquely imposes taxes which comprise a large portion of New York State's total local burden. In 2004, $1.37 of New York State's local burden of $7.54 per $100 of state personal income was due to the New York City personal and corporate income taxes. This accounted for nearly 20 percent of the total local burden.
- Higher than average property taxes as a share of income (48.5 percent above the 2004 national average) in New York are tied in part to rapidly escalating school property taxes over the past few years.

Property Taxes in New York State (See Table 9)

- New York State has some significant disparities within State property tax burdens, which this Budget will address specifically and individually.
- Property tax burdens as a percent of median home value are felt most heavily in Upstate counties due to historically declining economies and demographic factors. In fact, 9 of the 10 highest property tax counties in the nation (and 18 of the top 30) in 2005 were in Upstate New York as measured by property taxes paid on the median-valued home in that county.[1] This issue will be directly addressed by

[1] Source: U.S. Census Bureau; Tax Foundation calculations.

increased school aid amounts for fiscally strapped lower wealth districts, many of which are located Upstate, as well as by increased STAR benefits for middle class taxpayers most adversely impacted by high tax burdens.

- Long Island and the other suburban counties (Westchester, Rockland, Putnam, Orange, Sullivan, Dutchess and Ulster) experienced high property taxes as a percent of each county's respective median household income in 2005. Using this metric, 4 of the 10 highest property tax counties in the nation (and 6 of the top 25) in 2005 were clustered Downstate. At least in part, this is a housing supply issue that characterizes Downstate and that disproportionately affects the elderly and middle class. The Governor will address this issue in this Budget by doubling STAR benefits for many of these households within three years.
- Noticeably, the five counties of New York City did not have relatively high residential property tax burdens in 2005 when compared to other New York counties. This is the result of the more diverse tax structure in the City and a large and valuable commercial property tax base.

TABLE AND FIGURE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such State. The rates were those in effect in 2006. The income and corporate tax rates reported exclude local rates. This exclusion is important since New York is one of only a handful of states where a significant local personal income and corporate tax is imposed, as in New York City.

Tables 2 and 3 report state taxes collected by source divided by state personal income first for 1977 and then for 2004. The New York rank in terms of state taxes went from 10th highest to 30th highest over this period.

Tables 4 and 5 report local taxes as a share of state personal income by state in 1977 and in 2004. Clearly, New York has the highest local tax burden using this measure. New York has fallen from $4.12 to $3.67 above the local tax average, but some of this decrease is captured in the general decrease in variation amongst local taxes across states. The remaining above average local tax burden is caused by relatively high property taxes, the large sales tax burden at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City. Actions taken with this Budget are specifically designed to lower the local property tax burden.

Tables 6a and 6b report state and locally imposed taxes as a percentage of state personal income. The data used in the calculations are for fiscal years ending in 1977 and 2004, the latest year complete state and local tax information is available. The tax-to-income ratios included on table 7 are: state and local income taxes, state and local corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. Table 8a reports changes in only the state tax-to-income ratio over the 1977-2004 period. During this time, New York's state tax burden fell relative to the mean, and has been below the mean for the greater part of the last ten recorded years. Table 8b reports changes in the state and local tax-to-income ratio over the 1977-2004 period. While the average state and local tax to income ratio has remained relatively constant nationwide over the twenty-five year period, it has declined in New York.

The bottom of each table reports the average for each tax category, as well as the standard deviation and the Coefficient of Variation (CV). Additionally, the difference between the national average and the New York values is reported. The box plots that accompany this section (Figures 3, 5, 6, 7 and 8) show the dispersion of the 50 states around the median value (middle-ranked state, not the average state) of the tax-to-income ratio for that category. The shaded area in each box represents the 50 percent of states most closely clustered to the middle-ranked state (25 states). The hash marks or "whiskers" represent the 10th and the 90th (furthest from zero) percentiles of states. Dots just outside of the hash marks represent the remaining, outlying states. The vertical axis reports the ratio range.

While the standard deviation provides a sense of how the data is dispersed around the average value for all states, the CV allows comparisons of spread for data with different averages and is defined simply as the standard deviation divided by the average and is reported as a percentage. It essentially provides a normalized, unit-free measure of dispersion.

Figure 9 is a scatter plot which attempts to show the relationship between the State and local tax burden in 1977 with the change in burdens over the full period (1977-2004). Alaska is excluded because of how the gain and loss of oil revenues distort the results for Alaska and the nation as a whole. The fitted regression line has a negative slope, implying that states with a high tax burden in 1977 were most likely to see a decline in burden. The opposite was likely for states with low state and local tax burdens on income in 1977. This supports the convergence in the ratio shown in the box plot. The decreasing dispersion of state and local tax burdens shown in that figure was the result of high burden states decreasing towards the national average and low burden states increasing towards the mean.

The Tax-to-Income Percentage

The tax to personal income percentage offers one simple and commonly used way of comparing states with respect to relative tax burdens. It must be noted that the real effort of tax burden analysis should be to determine who actually faces the economic consequences of a tax, not who is legally required to pay the tax. All simple measures of tax burden across states are inadequate from this perspective. In general, any single indicator of burden will necessarily be limited in value. The following additional issues should be taken into consideration when relying on this measure:

Tax Exportation

In using taxes per dollar of personal income as a measure of tax burden it must be noted that for many states a significant portion of the tax base is "exported" or paid by out-of-state taxpayers.

For example, in New York, a large number of workers from New Jersey and Connecticut pay tax on New York source income and on taxable sales while in New York. This means that, unless a portion of Connecticut's and New Jersey's personal income is also shifted to New York State; the actual burden on New Jersey residents will appear to be a burden on New York residents.

Another example of tax exportation can be seen in states with a large tourism economy. These states will realize increases in their sales tax collections and other excise taxes that may overstate the tax burden actually paid by their citizens.

Finally, methods used to apportion corporate taxable income are neither consistent across states, nor are they necessarily representative of actual activity. For example, some states use a three-factor allocation formula that takes into account the percentage of a taxpayer's property, payroll and receipts amounts in the state compared to those amounts everywhere. Other states use different formulas. These differences in allocation formulas could result in either tax importation or exportation, again distorting this measure as a method of comparison of true tax burden imposed on each state's residents.

Overall, it would seem likely that New York State is a net exporter of tax burdens relative to other states. This serves to bias the tax-to-income percentage for New York upward — making burdens in New York appear too high using this measure.

Income Adjustments

Given two states with identical marginal tax rate structures, differences in the incomes of individuals could yield different tax-to-income percentage results. For example, if New York State and Alabama had identical progressive income brackets built into their respective tax codes, the higher average personal incomes of New York State residents would tend to lead to higher taxes per income due to the nature of the income tax.

Particularly important is the distinction between the National Income and Product Account (NIPA) measure of personal income as defined by the Bureau of Economic Analysis (BEA), and taxable personal income as defined by each state's respective tax code. For example, the NIPA personal income measure does not include capital gains (by the definition of personal income). However, capital gains are a component of New York Adjusted Gross Income (NYAGI) that contributes significantly to personal income tax receipts in New York State. States with high income individuals, like New York, would be more likely to have the tax-to-income percentage distorted upward. In the gains example, the percentage of personal income used in Table 2 will be influenced because the numerator will include taxes on capital gains income that is not included in the denominator, effectively overstating the tax burden relative to other states since New York has a disproportionate share of taxpayers with large capital gains incomes.

Federal Offsets

The Federal tax structure allows for the deductibility of certain state and local taxes. As a result, residents of states with relatively higher state income, property and corporate tax burdens, such as New York State, receive a larger deduction, thereby offsetting a portion of the individual's total tax burden. Again, this is not reflected in the tax-to-income percentage reported here. So again, it would appear this biases the measure in a way that makes New York look like a relatively higher tax state than is actually the case.

With all three issues, the tax-to-income percentage calculation biases the tax burden in New York upward.

Figure 1 – Comparison of 2004 State Tax Burdens

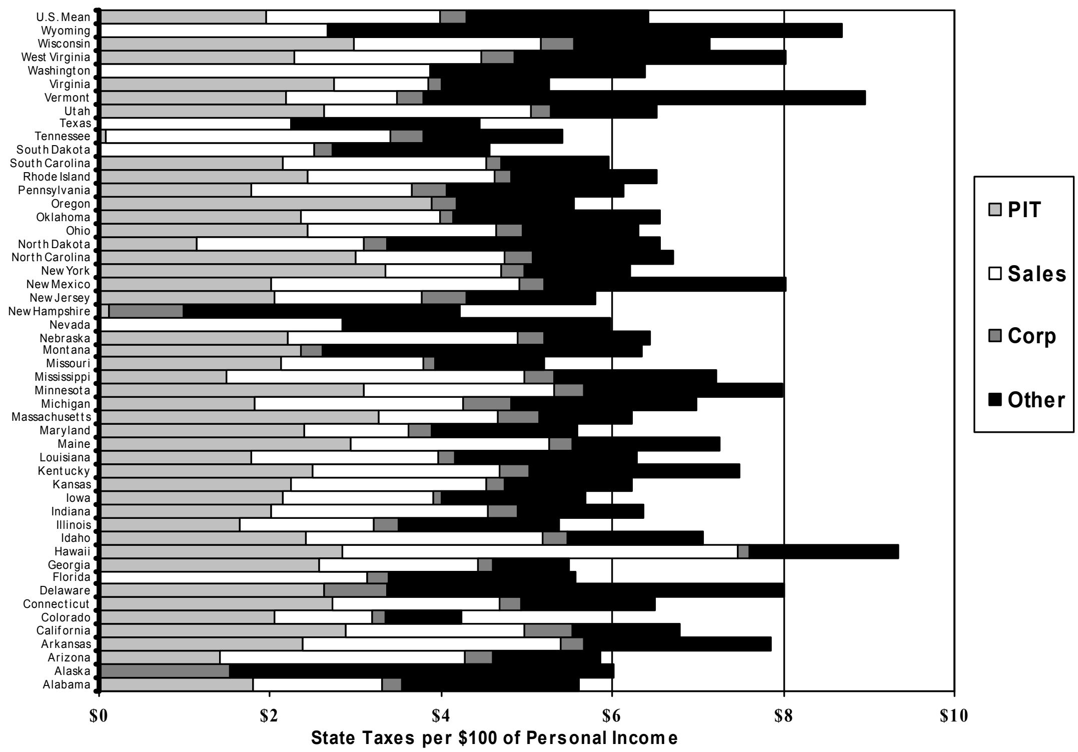


Figure 2 - Comparison of 2004 Local Tax Burdens

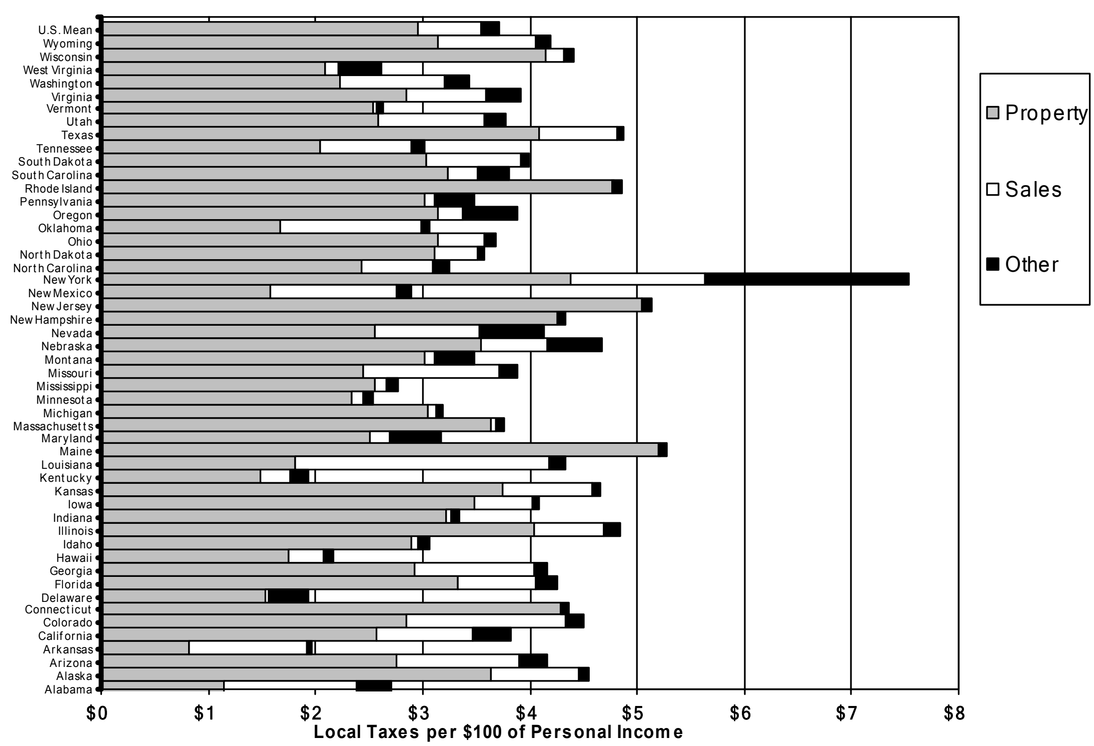


Table 1 Comparison of 2006 State Top Rates

State	Top PIT Rate	Highest Tax Bracket (Married Filing Joint)	Top Corp. Rate	State Sales Rate	Combined Sales Rate[1]
Alabama	5	$6,000	6.5	4	8
Alaska	0	Flat Rate	9.4	0	1.25
Arizona	5.04	$300,000	6.97	5.6	7.8
Arkansas	7	$28,500	6.5	6	8
California	9.3	$80,692	8.84	6.25	7.95
Colorado	4.63	Flat Rate	4.63	2.9	6.2
Connecticut	5	$20,000	7.5	6	6
Delaware	5.95	$60,000	8.7	0	0
Florida	0	Flat Rate	5.5	6	6.7
Georgia	6	$10,000	6	4	6.95
Hawaii	8.25	$80,000	6.4	4	4.4
Idaho	7.8	$45,154	7.6	6	6.05
Illinois	3	Flat Rate	7.3	6.25	7.6
Indiana	3.4	Flat Rate	8.5	6	6
Iowa	8.98	$57,106	12	5	6.6
Kansas	6.45	$60,000	4	5.3	7
Kentucky	6	$75,000	7	6	6
Louisiana	6	$50,000	8	5.5	8.7
Maine	8.5	$34,700	8.93	5	5
Maryland	4.75	$3,000	7	5	5
Massachusetts	5.3	Flat Rate	9.5	5	5
Michigan	3.9	Flat Rate	1.9	6	6
Minnesota	7.85	$115,510	9.8	6.5	6.65
Mississippi	5	$10,000	5	7	7
Missouri	6	$9,000	6.25	4.23	6.95
Montana	6.9	$13,900	6.75	0	0
Nebraska	6.84	$46,750	7.81	5.5	6.35
Nevada	0	Flat Rate	0	6.5	7.5
New Hampshire	State Income tax limited to Interest Income and Dividends only		8.5	0	0
New Jersey	8.97	$500,000	9	7	7
New Mexico	5.3	$32,000	7.6	5	6.6
New York	**6.85**	**$20,000**	**7.5**	**4**	**8.25**
North Carolina	8.25	$200,000	6.9	4.25	6.8
North Dakota	5.54	$326,480	7	5	5.4
Ohio	7.185	$200,000	8.5	5.5	6.7
Oklahoma	6.25	$20,000	6	4.5	8.15
Oregon	9	$13,100	6.6	0	0
Pennsylvania	3.07	Flat Rate	9.99	6	6.25
Rhode Island	25% of federal tax rates		9	7	7
South Carolina	7	$12,850	5	5	5.8
South Dakota	0	Flat Rate	0	4	5.25
Tennessee	State Income tax limited to Interest Income and Dividends only		6.5	7	9.35
Texas	0	Flat Rate	4.5	6.25	7.95
Utah	7	$8,628	5	4.75	6.45
Vermont	9.5	$326,450	8.9	6	6.05
Virginia	5.75	$17,000	6	4	5
Washington	0	Flat Rate	0	6.5	8.35
West Virginia	6.5	$60,000	9	6	6
Wisconsin	6.75	$176,770	7.9	5	5.4
Wyoming	0	Flat Rate	0	4	5.25
Mean Values	**5.44**		**6.67**	**4.85**	**5.99**
Standard Deviation	**2.75**		**2.63**	**1.87**	**2.2**
Coefficient of Variation	**50.55**		**39.43**	**38.56**	**36.73**

[1]**Source:** Sales Tax Clearinghouse. Reflects average combined state and local rates for state.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 2 - 1977 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Percent	Sales and Use	Percent	Corporate	Percent	Other	Percent
Alabama	6.41	26	1.1	17.2	3.25	50.7	0.35	5.4	1.71	26.7
Alaska	15.69	1	4.27	27.2	0.68	4.4	0.73	4.6	10.01	63.8
Arizona	7.21	11	1.19	16.4	3.66	50.7	0.32	4.5	2.05	28.4
Arkansas	6.43	25	1.31	20.4	3.81	59.2	0.54	8.4	0.78	12.1
California	6.57	23	1.89	28.8	2.49	37.9	0.86	13	1.34	20.4
Colorado	5.3	43	1.67	31.5	1.59	30.1	0.4	7.5	1.64	31
Connecticut	5.43	41	0.22	4.1	3.92	72.3	0.75	13.9	0.53	9.8
Delaware	8.32	3	3.37	40.5	1.46	17.6	0.62	7.4	2.87	34.5
Florida	5.28	44	0	0	3.49	66.2	0.31	5.9	1.47	27.9
Georgia	5.9	33	1.53	26	2.96	50.1	0.53	9	0.88	14.9
Hawaii	8.96	2	2.65	29.6	5.59	62.3	0.36	4	0.36	4.1
Idaho	6.44	24	1.97	30.6	3.05	47.5	0.54	8.4	0.87	13.5
Illinois	5.57	39	1.48	26.6	2.5	44.9	0.4	7.2	1.19	21.3
Indiana	5.59	38	1.15	20.5	3.69	66.1	0.22	4	0.52	9.3
Iowa	6.11	31	2.12	34.6	2.7	44.1	0.43	7.1	0.87	14.2
Kansas	5.74	34	1.24	21.6	2.92	50.9	0.73	12.7	0.85	14.8
Kentucky	7.19	12	0.95	13.3	3.75	52.2	0.6	8.4	1.88	26.2
Louisiana	7	16	0.54	7.8	1.97	28.2	0.39	5.5	4.09	58.5
Maine	6.92	19	1.11	16	4.37	63.2	0.52	7.5	0.92	13.3
Maryland	6.2	29	1.25	20.1	2.68	43.3	0.34	5.4	1.93	31.2
Massachusetts	6.7	20	2.72	40.6	2.68	40.1	0.91	13.5	0.39	5.8
Michigan	6.65	21	1.75	26.4	2.93	44.1	1.08	16.3	0.88	13.3
Minnesota	8.29	4	3.19	38.5	3.21	38.7	0.86	10.4	1.03	12.4
Mississippi	7.53	9	1.02	13.6	5.36	71.2	0.36	4.7	0.79	10.5
Missouri	4.72	47	0.9	19	1.95	41.3	0.31	6.6	1.56	33.1
Montana	6.12	30	2.19	35.8	1.63	26.6	0.49	8	1.81	29.6
Nebraska	5.67	37	1.58	27.8	2.92	51.6	0.39	6.8	0.78	13.7
Nevada	5.69	36	0	0	3.68	64.8	0	0	2	35.2
New Hampshire	3.34	50	0.12	3.5	1.9	56.9	0.54	16.3	0.78	23.3
New Jersey	5.01	46	1.14	22.9	2.02	40.4	0.54	10.7	1.3	26
New Mexico	8.04	5	0.36	4.5	4.85	60.3	0.4	4.9	2.44	30.3
North Carolina	6.97	17	2.28	32.8	2.89	41.5	0.6	8.6	1.19	17.1
North Dakota	7.12	14	1.32	18.6	3.94	55.4	0.52	7.4	1.33	18.7
Ohio	4.42	49	0.08	1.7	2.5	56.6	0.39	8.8	1.45	32.8
Oklahoma	6.04	32	1.15	19	1.8	29.7	0.37	6.2	2.72	45
Oregon	5.3	42	3.06	57.7	0.75	14.2	0.5	9.4	0.99	18.7
Pennsylvania	6.29	28	0.47	7.5	3.12	49.6	0.75	11.9	1.95	31
Rhode Island	6.58	22	1.56	23.7	3.82	58.1	0.61	9.3	0.59	9
South Carolina	7.01	15	1.71	24.5	4.19	59.8	0.63	9	0.47	6.8
South Dakota	4.58	48	0	0	3.74	81.6	0.06	1.3	0.79	17.1
Tennessee	5.71	35	0.08	1.5	3.34	58.5	0.58	10.2	1.71	29.9
Texas	5.18	45	0	0	3.01	58.2	0	0	2.17	41.8
Utah	6.36	27	1.89	29.8	3.12	49.1	0.3	4.7	1.04	16.4
Vermont	7.59	8	2.32	30.6	3.73	49.1	0.56	7.4	0.98	12.9
Virginia	5.48	40	1.91	34.8	1.86	33.9	0.42	7.8	1.29	23.6
Washington	7.13	13	0	0	4.65	65.3	0	0	2.48	34.7
West Virginia	7.86	7	1.43	18.2	5.58	71	0.2	2.6	0.65	8.2
Wisconsin	8.01	6	3.35	41.9	3.08	38.5	0.74	9.2	0.84	10.5
Wyoming	6.95	18	0	0	3.61	52	0	0	3.34	48
Mean	**6.56**		**1.42**	**21.6**	**3.07**	**46.9**	**0.48**	**7.3**	**1.59**	**24.3**
Standard Deviation	**1.71**		**1.03**		**1.13**		**0.25**		**1.47**	
Coefficient of Variation	**26.08**		**72.78**		**36.9**		**51.25**		**92.08**	
NYS Diff. from Mean	**0.83**		**0.78**	**8.1**	**(1.85)**	**(30.4)**	**0.41**	**4.8**	**1.5**	**17.4**

Source: Moody's Economy.com, DOB Staff Estimates

Table 3 - 2004 Components and Percentage of Total State Tax Burden per $100 Personal Income

State	Total State Taxes	Rank	PIT	Percent	Sales and Use	Percent	Corporate	Percent	Other	Percent
Alabama	5.6	38	1.79	32	2.93	52.4	0.23	4.2	0.64	11.5
Alaska	6.01	32	0	0	0.77	12.9	1.52	25.3	3.71	61.8
Arizona	5.86	35	1.41	24	3.71	63.3	0.32	5.5	0.42	7.2
Arkansas	7.86	8	2.37	30.2	4.13	52.6	0.26	3.3	1.1	14
California	6.79	15	2.88	42.5	2.69	39.6	0.55	8.1	0.67	9.8
Colorado	4.24	49	2.05	48.4	1.74	41	0.14	3.4	0.3	7.1
Connecticut	6.49	21	2.72	42	3.09	47.6	0.24	3.7	0.44	6.7
Delaware	8.01	6	2.63	32.9	1.29	16.1	0.73	9.2	3.35	41.8
Florida	5.58	40	0	0	4.28	76.7	0.26	4.7	1.04	18.6
Georgia	5.49	42	2.57	46.9	2.44	44.4	0.19	3.4	0.29	5.3
Hawaii	9.35	1	2.84	30.4	6	64.2	0.14	1.5	0.37	3.9
Idaho	7.06	13	2.42	34.3	3.74	53	0.28	3.9	0.62	8.8
Illinois	5.37	44	1.64	30.4	2.82	52.6	0.29	5.4	0.62	11.6
Indiana	6.36	24	2.02	31.8	3.67	57.8	0.34	5.4	0.32	5
Iowa	5.69	37	2.14	37.6	2.74	48.1	0.1	1.7	0.72	12.6
Kansas	6.22	29	2.25	36.3	3.21	51.5	0.2	3.2	0.56	9.1
Kentucky	7.49	9	2.5	33.3	3.55	47.3	0.34	4.5	1.11	14.8
Louisiana	6.29	27	1.78	28.3	3.51	55.8	0.19	3.1	0.81	12.8
Maine	7.26	10	2.94	40.4	3.38	46.5	0.28	3.9	0.67	9.2
Maryland	5.59	39	2.39	42.8	2.29	41	0.26	4.6	0.65	11.6
Massachusetts	6.23	28	3.27	52.4	2.07	33.3	0.48	7.7	0.41	6.6
Michigan	6.99	14	1.81	25.9	3.35	47.9	0.57	8.1	1.26	18.1
Minnesota	7.99	7	3.1	38.7	3.46	43.3	0.35	4.3	1.09	13.6
Mississippi	7.21	11	1.49	20.7	4.77	66.2	0.34	4.8	0.6	8.4
Missouri	5.2	46	2.12	40.8	2.55	49	0.13	2.5	0.4	7.7
Montana	6.34	25	2.36	37.3	1.7	26.9	0.26	4.2	2.01	31.7
Nebraska	6.44	22	2.2	34.1	3.52	54.6	0.3	4.6	0.43	6.6
Nevada	5.98	33	0	0	4.82	80.6	0	0	1.16	19.4
New Hampshire	4.22	50	0.12	2.7	1.42	33.6	0.86	20.3	1.83	43.3
New Jersey	5.8	36	2.05	35.3	2.69	46.4	0.52	9	0.54	9.3
New Mexico	8.03	4	2.02	25.2	4.09	50.9	0.28	3.5	1.64	20.4
New York	6.21	30	3.34	53.8	2.23	36	0.28	4.5	0.36	5.8
North Carolina	6.72	16	3	44.6	2.9	43.2	0.33	5	0.49	7.2
North Dakota	6.55	18	1.14	17.4	3.55	54.3	0.27	4.1	1.59	24.3
Ohio	6.3	26	2.44	38.7	3.02	48	0.3	4.7	0.54	8.6
Oklahoma	6.55	17	2.36	36.1	2.38	36.4	0.14	2.1	1.67	25.4
Oregon	5.56	41	3.89	70	0.68	12.3	0.29	5.2	0.7	12.5
Pennsylvania	6.14	31	1.77	28.9	3.03	49.4	0.41	6.6	0.92	15.1
Rhode Island	6.52	19	2.44	37.4	3.53	54.2	0.19	2.9	0.36	5.6
South Carolina	5.96	34	2.14	35.8	3.23	54.2	0.17	2.9	0.42	7
South Dakota	4.57	47	0	0	3.72	81.4	0.2	4.4	0.65	14.1
Tennessee	5.42	43	0.08	1.5	4.18	77.1	0.4	7.3	0.77	14.2
Texas	4.45	48	0	0	3.57	80.1	0	0	0.89	19.9
Utah	6.52	20	2.63	40.3	3.33	51.1	0.23	3.5	0.34	5.2
Vermont	8.95	2	2.18	24.3	3.48	38.9	0.32	3.5	2.97	33.2
Virginia	5.26	45	2.74	52.1	1.93	36.6	0.16	3	0.44	8.3
Washington	6.39	23	0	0	5	78.2	0	0	1.39	21.8
West Virginia	8.02	5	2.28	28.5	4.48	55.8	0.39	4.8	0.87	10.8
Wisconsin	7.14	12	2.97	41.5	3.18	44.5	0.39	5.4	0.61	8.6
Wyoming	8.68	3	0	0	3.31	38.1	0	0	5.37	61.9
Mean	**6.42**		**1.95**	**30.2**	**3.14**	**49.3**	**0.31**	**4.9**	**1.02**	**15.6**
Standard Deviation	**1.12**		**1.02**		**1.03**		**0.24**		**0.96**	
Coefficient of Variation	**17.44**		**52.42**		**32.8**		**77.07**		**93.76**	
NYS Diff. from Mean	**(0.21)**		**1.39**	**23.6**	**(0.91)**	**(13.3)**	**(0.0)**	**(0.4)**	**(0.66)**	**(9.8)**

Source: Moody's Economy.com, DOB Staff Estimates

Table 4 - 1977 Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	2.16	47	0.87	50	40.6	0.9	4	41.6	0.39	9	17.9
Alaska	3.26	36	2.57	36	78.6	0.65	13	20	0.04	45	1.4
Arizona	4.75	14	3.88	18	81.8	0.76	9	16	0.11	30	2.3
Arkansas	2.03	48	1.85	44	90.9	0.12	29	6.1	0.06	41	3
California	5.89	4	5.02	8	85.2	0.65	14	11	0.22	16	3.8
Colorado	5.29	8	4.01	15	75.9	1.11	3	21	0.16	21	3.1
Connecticut	4.82	13	4.77	10	99.1	0	44	0	0.04	46	0.9
Delaware	1.96	49	1.67	46	85	0	42	0.2	0.29	12	14.7
Florida	3.29	35	2.78	31	84.4	0.4	20	12.1	0.12	28	3.5
Georgia	3.66	30	2.97	28	81.3	0.56	16	15.2	0.13	26	3.5
Hawaii	2.44	42	1.95	43	80.1	0.23	24	9.4	0.26	15	10.5
Idaho	3.13	38	3.04	26	97.3	0.02	37	0.8	0.06	40	2
Illinois	4.53	15	3.71	20	81.9	0.66	12	14.5	0.16	20	3.6
Indiana	3.34	34	3.22	24	96.6	0.01	41	0.2	0.11	29	3.3
Iowa	4.13	20	4	16	96.9	0.01	39	0.2	0.12	27	2.9
Kansas	4.27	19	4.02	14	94.1	0.16	27	3.8	0.09	34	2.1
Kentucky	2.39	43	1.6	47	66.9	0.11	31	4.7	0.68	5	28.5
Louisiana	3.17	37	1.54	49	48.5	1.49	2	47.1	0.14	24	4.4
Maine	3.67	29	3.64	21	99.3	0	45	0	0.03	50	0.7
Maryland	4.5	16	2.93	29	65.1	0.2	26	4.4	1.37	1	30.4
Massachusetts	6.52	2	6.48	1	99.4	0	46	0	0.04	49	0.6
Michigan	4.31	18	3.95	17	91.6	0.04	35	1	0.32	11	7.4
Minnesota	3.74	27	3.59	22	96	0.07	33	2	0.08	36	2.1
Mississippi	2.29	45	2.17	38	94.5	0.08	32	3.7	0.04	48	1.8
Missouri	3.93	23	2.75	33	69.8	0.8	7	20.2	0.39	8	10
Montana	5.28	9	5.08	7	96.1	0	47	0	0.21	17	3.9
Nebraska	5.62	5	5.24	5	93.3	0.25	22	4.4	0.13	25	2.3
Nevada	4.09	21	2.76	32	67.5	0.76	8	18.7	0.57	6	13.9
New Hampshire	5.45	6	5.35	4	98.1	0	48	0	0.11	32	1.9
New Jersey	6.1	3	5.5	3	90.2	0.52	17	8.5	0.08	35	1.3
New Mexico	1.95	50	1.59	48	81.7	0.21	25	11	0.14	23	7.4
New York	***8.09***	***1***	***5.53***	***2***	***68.4***	***1.51***	***1***	***18.7***	***1.04***	***3***	***12.9***
North Carolina	2.6	41	2.14	41	82.4	0.4	19	15.5	0.05	42	2
North Dakota	3.58	31	3.45	23	96.5	0.02	38	0.6	0.11	31	3
Ohio	3.97	22	3.03	27	76.3	0.14	28	3.5	0.81	4	20.3
Oklahoma	2.91	40	2.04	42	70	0.82	6	28.3	0.05	43	1.8
Oregon	5.05	12	4.65	12	92.3	0.11	30	2.3	0.28	13	5.5
Pennsylvania	3.92	24	2.59	35	66.2	0.03	36	0.9	1.29	2	32.9
Rhode Island	4.46	17	4.42	13	99.1	0	49	0	0.04	47	0.9
South Carolina	2.31	44	2.15	40	93.2	0	43	0.1	0.15	22	6.7
South Dakota	5.33	7	4.82	9	90.6	0.24	23	4. 6	0.26	14	4.9
Tennessee	3.34	33	2.27	37	68	0.88	5	26.3	0.19	18	5.8
Texas	3.74	28	3.21	25	85.8	0.46	18	12.2	0.07	37	2
Utah	3.55	32	2.91	30	81.8	0.56	15	15.7	0.09	33	2.6
Vermont	5.26	10	5.19	6	98.7	0	50	0	0.07	39	1.3
Virginia	3.78	26	2.6	34	69	0.75	10	19.9	0.42	7	11.1
Washington	3.08	39	2.15	39	70	0.74	11	24.2	0.18	19	5.9
West Virginia	2.2	46	1.8	45	81.8	0.06	34	2.8	0.34	10	15.3
Wisconsin	3.88	25	3.83	19	98.7	0.01	40	0.1	0.05	44	1.2
Wyoming	5.1	11	4.69	11	92	0.34	21	6.6	0.07	38	1.4
Mean	**3.96**		**3.36**		**84.8**	**0.36**		**9**	**0.24**		**6.2**
Standard Deviation	**1.31**		**1.3**			**0.4**			**0.3**		
CV	**33.18**		**38.66**			**111**			**123.72**		
NYS Diff. from Mean	**4.12**		**2.17**		**(16.4)**	**1.15**		**9.7**	**0.8**		**6.7**

Source: Moody's Economy.com, DOB Staff estimates.
Note: "Other" includes NYC imposed taxes and other categories.

Table 5 - 2004 Local Taxes Per $100 of Personal Income

State	Total	Rank	Property	Rank	Percent of Total	Sales	Rank	Percent of Total	Other	Rank	Percent of Total
Alabama	2.81	42	1.15	49	41	1.23	6	43.8	0.43	10	15.2
Alaska	4.62	10	3.63	11	78.6	0.83	18	18	0.16	29	3.4
Arizona	4.16	21	2.75	30	66.1	1.15	8	27.6	0.26	17	6.3
Arkansas	1.96	50	0.82	50	41.8	1.1	10	56.1	0.04	50	2.1
California	3.82	29	2.57	32	67.3	0.89	15	23.3	0.36	13	9.3
Colorado	4.53	12	2.84	28	62.7	1.5	2	33.1	0.19	23	4.2
Connecticut	4.37	14	4.29	5	98.2	0	49	0	0.08	43	1.8
Delaware	2.09	49	1.53	47	73.3	0.04	43	1.9	0.52	9	24.8
Florida	4.25	18	3.33	15	78.3	0.73	21	17.2	0.19	24	4.5
Georgia	4.17	20	2.93	26	70.2	1.11	9	26.6	0.13	34	3.2
Hawaii	2.34	48	1.75	44	74.8	0.33	29	14.1	0.26	18	11.1
Idaho	3.09	38	2.89	27	93.6	0.06	40	1.9	0.14	31	4.5
Illinois	4.87	5	4.04	9	83	0.65	24	13.4	0.18	27	3.6
Indiana	3.57	33	3.22	17	90.1	0.05	41	1.4	0.3	16	8.5
Iowa	4.15	22	3.48	14	83.9	0.55	26	13.3	0.12	35	2.8
Kansas	4.66	9	3.75	10	80.5	0.83	19	17.8	0.08	45	1.7
Kentucky	2.65	44	1.49	48	56.1	0.27	31	10.2	0.89	5	33.7
Louisiana	4.33	16	1.81	43	41.8	2.37	1	54.8	0.15	30	3.4
Maine	5.35	2	5.2	1	97.3	0.01	46	0.2	0.14	32	2.6
Maryland	4.54	11	2.51	36	55.3	0.18	33	4	1.85	1	40.7
Massachusetts	3.77	31	3.63	12	96.4	0.05	42	1.3	0.09	42	2.3
Michigan	3.34	35	3.05	22	91.3	0.07	39	2.1	0.22	20	6.6
Minnesota	2.54	47	2.34	39	92	0.1	36	3.9	0.1	38	4
Mississippi	2.76	43	2.56	33	92.7	0.1	37	3.6	0.1	39	3.7
Missouri	4.07	25	2.44	37	60	1.27	5	31.2	0.36	14	8.7
Montana	3.14	37	3.02	24	96.1	0.01	47	0.3	0.11	36	3.6
Nebraska	4.72	7	3.55	13	75.2	0.61	25	12.9	0.56	8	11.9
Nevada	4.13	23	2.56	34	62	0.97	13	23.5	0.6	7	14.5
New Hampshire	4.34	15	4.26	6	98.2	0	50	0	0.08	44	1.8
New Jersey	5.14	3	5.04	2	98.1	0.01	48	0.2	0.09	41	1.7
New Mexico	2.89	41	1.58	46	54.6	1.18	7	40.8	0.13	33	4.7
New York	***7.54***	***1***	***4.38***	***4***	***58.1***	***1.48***	***3***	***19.6***	***1.68***	***2***	***22.2***
North Carolina	3.26	36	2.43	38	74.4	0.67	23	20.5	0.16	28	5
North Dakota	3.58	32	3.11	21	86.8	0.4	28	11.2	0.07	48	2
Ohio	4.67	8	3.14	18	67.2	0.43	27	9.2	1.1	3	23.6
Oklahoma	3.07	40	1.67	45	54.5	1.32	4	43	0.08	46	2.5
Oregon	3.98	26	3.14	19	78.8	0.24	32	6	0.6	6	15.1
Pennsylvania	4.21	19	3.02	25	71.8	0.09	38	2.1	1.1	4	26.1
Rhode Island	4.85	6	4.76	3	98	0.02	45	0.4	0.07	47	1.5
South Carolina	3.83	28	3.24	16	84.6	0.28	30	7.3	0.31	15	8.1
South Dakota	4.09	24	3.03	23	74	0.88	16	21.5	0.18	26	4.5
Tennessee	3.08	39	2.04	42	66.2	0.85	17	27.6	0.19	25	6.2
Texas	4.92	4	4.08	8	82.9	0.73	22	14.8	0.11	37	2.3
Utah	3.77	30	2.59	31	68.8	0.98	11	26	0.2	22	5.2
Vermont	2.63	45	2.54	35	96.5	0.03	44	1.1	0.06	49	2.3
Virginia	3.98	27	2.84	29	71.3	0.75	20	18.8	0.39	12	9.8
Washington	3.46	34	2.23	40	64.4	0.98	12	28.3	0.25	19	7.3
West Virginia	2.61	46	2.09	41	80.2	0.12	35	4.6	0.4	11	15.2
Wisconsin	4.41	13	4.14	7	93.9	0.17	34	3.9	0.1	40	2.2
Wyoming	4.27	17	3.14	20	73.5	0.92	14	21.5	0.21	21	4.9
Mean	**3.87**		**2.95**		**75.9**	**0.59**		**15.7**	**0.32**		**8.3**
Std. Dev.	**0.98**		**0.97**			**0.53**			**0.38**		
CV	**25.29**		**32.83**			**89.11**			**117.7**		
NYS Diff.	**3.67**		**1.43**		**(17.8)**	**0.89**		**3.9**	**1.35**		**13.9**

Source: Moody's Economy.com, DOB Staff estimates.

Note: "Other" includes NYC imposed taxes and all other categories.

Table 6a - State/Local Split of 1977 Tax-to-Income Ratio

State	State Taxes	Local Taxes	State/Local
Alabama	6.41	2.16	8.56
Alaska	15.69	3.26	18.96
Arizona	7.21	4.75	11.97
Arkansas	6.43	2.03	8.47
California	6.57	5.89	12.46
Colorado	5.30	5.29	10.58
Connecticut	5.43	4.82	10.24
Delaware	8.32	1.96	10.28
Florida	5.28	3.29	8.57
Georgia	5.90	3.66	9.56
Hawaii	8.96	2.44	11.40
Idaho	6.44	3.13	9.56
Illinois	5.57	4.53	10.10
Indiana	5.59	3.34	8.92
Iowa	6.11	4.13	10.24
Kansas	5.74	4.27	10.01
Kentucky	7.19	2.39	9.58
Louisiana	7.00	3.17	10.17
Maine	6.92	3.67	10.59
Maryland	6.20	4.50	10.70
Massachusetts	6.70	6.52	13.23
Michigan	6.65	4.31	10.96
Minnesota	8.29	3.74	12.03
Mississippi	7.53	2.29	9.82
Missouri	4.72	3.93	8.66
Montana	6.12	5.28	11.41
Nebraska	5.67	5.62	11.29
Nevada	5.69	4.09	9.78
New Hampshire	3.34	5.45	8.79
New Jersey	5.01	6.10	11.10
New Mexico	8.04	1.95	10.00
New York	**7.39**	**8.09**	**15.48**
North Carolina	6.97	2.60	9.57
North Dakota	7.12	3.58	10.70
Ohio	4.42	3.97	8.40
Oklahoma	6.04	2.91	8.95
Oregon	5.30	5.05	10.34
Pennsylvania	6.29	3.92	10.21
Rhode Island	6.58	4.46	11.04
South Carolina	7.01	2.31	9.31
South Dakota	4.58	5.33	9.91
Tennessee	5.71	3.34	9.05
Texas	5.18	3.74	8.92
Utah	6.36	3.55	9.91
Vermont	7.59	5.26	12.85
Virginia	5.48	3.78	9.26
Washington	7.13	3.08	10.21
West Virginia	7.86	2.20	10.06
Wisconsin	8.01	3.88	11.89
Wyoming	6.95	5.10	12.05
Mean Values	**6.42**	**3.87**	**10.29**
Standard Deviation	**1.13**	**0.98**	**1.05**
Coefficient of Variation	**17.61**	**25.29**	**10.24**
NYS Diff. from Avg.	(0.21)	3.67	3.46

Sources: Moody's Economy.com, DOB Staff Estimates

Table 6b - State/Local Split of 2004 Tax-to-Income Ratio

State	State Taxes	Local Taxes	State/Local
Alabama	5.60	2.81	8.41
Alaska	6.01	4.62	10.62
Arizona	5.86	4.16	10.02
Arkansas	7.86	1.96	9.82
California	6.79	3.82	10.61
Colorado	4.24	4.53	8.77
Connecticut	6.49	4.37	10.86
Delaware	8.01	2.09	10.10
Florida	5.58	4.25	9.83
Georgia	5.49	4.17	9.66
Hawaii	9.35	2.34	11.69
Idaho	7.06	3.09	10.15
Illinois	5.37	4.87	10.24
Indiana	6.36	3.57	9.93
Iowa	5.69	4.15	9.83
Kansas	6.22	4.66	10.88
Kentucky	7.49	2.65	10.15
Louisiana	6.29	4.33	10.62
Maine	7.26	5.35	12.61
Maryland	5.59	4.54	10.13
Massachusetts	6.23	3.77	10.00
Michigan	6.99	3.34	10.33
Minnesota	7.99	2.54	10.53
Mississippi	7.21	2.76	9.97
Missouri	5.20	4.07	9.26
Montana	6.34	3.14	9.48
Nebraska	6.44	4.72	11.16
Nevada	5.98	4.13	10.11
New Hampshire	4.22	4.34	8.56
New Jersey	5.80	5.14	10.94
New Mexico	8.03	2.89	10.93
New York	**6.21**	**7.54**	**13.75**
North Carolina	6.72	3.26	9.99
North Dakota	6.55	3.58	10.13
Ohio	6.30	4.67	10.97
Oklahoma	6.55	3.07	9.62
Oregon	5.56	3.98	9.54
Pennsylvania	6.14	4.21	10.35
Rhode Island	6.52	4.85	11.38
South Carolina	5.96	3.83	9.79
South Dakota	4.57	4.09	8.66
Tennessee	5.42	3.08	8.50
Texas	4.45	4.92	9.37
Utah	6.52	3.77	10.28
Vermont	8.95	2.63	11.58
Virginia	5.26	3.98	9.24
Washington	6.39	3.46	9.85
West Virginia	8.02	2.61	10.63
Wisconsin	7.14	4.41	11.55
Wyoming	8.68	4.27	12.95
Mean Values	**6.42**	**3.87**	**10.29**
Standard Deviation	**1.13**	**0.98**	**1.05**
Coefficient of Variation	**17.61**	**25.29**	**10.24**
NYS Diff. from Avg.	(0.21)	3.67	3.46

Sources: Moody's Economy.com, DOB Staff Estimates

Table 7 - Ratio of Tax Collections to Personal Income - 2004

State	State PIT	Local PIT	State Corporate	Local Corporate	State Sales	Local Sales	Local Property	All Other	Total State/Local
Alabama	1.79	0.08	0.23	0.00	1.51	1.05	1.15	2.59	8.41
Alaska	0.00	0.00	1.52	0.00	0.00	0.66	3.63	4.81	10.62
Arizona	1.41	0.00	0.32	0.00	2.87	1.01	2.75	1.67	10.02
Arkansas	2.37	0.00	0.26	0.00	3.03	0.96	0.82	2.38	9.82
California	2.88	0.00	0.55	0.00	2.10	0.62	2.57	1.89	10.61
Colorado	2.05	0.00	0.14	0.00	1.15	1.36	2.84	1.23	8.77
Connecticut	2.72	0.00	0.24	0.00	1.97	0.00	4.29	1.63	10.86
Delaware	2.63	0.16	0.73	0.00	0.00	0.00	1.53	5.04	10.10
Florida	0.00	0.00	0.26	0.00	3.13	0.16	3.33	2.95	9.83
Georgia	2.57	0.00	0.19	0.00	1.85	0.82	2.93	1.30	9.66
Hawaii	2.84	0.00	0.14	0.00	4.62	0.00	1.75	2.34	11.69
Idaho	2.42	0.00	0.28	0.00	2.77	0.00	2.89	1.79	10.15
Illinois	1.64	0.00	0.29	0.00	1.57	0.22	4.04	2.48	10.24
Indiana	2.02	0.23	0.34	0.00	2.53	0.00	3.22	1.58	9.93
Iowa	2.14	0.06	0.10	0.00	1.76	0.46	3.48	1.85	9.83
Kansas	2.25	0.00	0.20	0.00	2.28	0.65	3.75	1.75	10.88
Kentucky	2.50	0.72	0.34	0.00	2.18	0.01	1.49	2.91	10.15
Louisiana	1.78	0.00	0.19	0.00	2.18	2.15	1.81	2.51	10.62
Maine	2.94	0.00	0.28	0.00	2.32	0.00	5.20	1.87	12.61
Maryland	2.39	1.37	0.26	0.00	1.23	0.00	2.51	2.37	10.13
Massachusetts	3.27	0.00	0.48	0.00	1.39	0.00	3.63	1.23	10.00
Michigan	1.81	0.15	0.57	0.00	2.44	0.00	3.05	2.31	10.33
Minnesota	3.10	0.00	0.35	0.00	2.21	0.03	2.34	2.51	10.53
Mississippi	1.49	0.00	0.34	0.00	3.49	0.00	2.56	2.08	9.97
Missouri	2.12	0.18	0.13	0.00	1.68	0.97	2.44	1.75	9.26
Montana	2.36	0.00	0.26	0.00	0.00	0.00	3.02	3.84	9.48
Nebraska	2.20	0.00	0.30	0.00	2.70	0.42	3.55	2.00	11.16
Nevada	0.00	0.00	0.00	0.00	2.85	0.29	2.56	4.43	10.11
New Hampshire	0.12	0.00	0.86	0.00	0.00	0.00	4.26	3.32	8.56
New Jersey	2.05	0.00	0.52	0.00	1.73	0.00	5.04	1.60	10.94
New Mexico	2.02	0.00	0.28	0.00	2.90	1.03	1.58	3.12	10.93
New York	**3.34**	**0.83**	**0.28**	**0.45**	**1.36**	**1.26**	**4.38**	**1.85**	**13.75**
North Carolina	3.00	0.00	0.33	0.00	1.74	0.61	2.43	1.87	9.99
North Dakota	1.14	0.00	0.27	0.00	1.96	0.34	3.11	3.32	10.13
Ohio	2.44	0.97	0.30	0.00	2.21	0.39	3.14	1.53	10.97
Oklahoma	2.36	0.00	0.14	0.00	1.63	1.21	1.67	2.61	9.62
Oregon	3.89	0.09	0.29	0.00	0.00	0.00	3.14	2.13	9.54
Pennsylvania	1.77	0.72	0.41	0.00	1.88	0.05	3.02	2.50	10.35
Rhode Island	2.44	0.00	0.19	0.00	2.18	0.00	4.76	1.82	11.38
South Carolina	2.14	0.00	0.17	0.00	2.39	0.10	3.24	1.76	9.79
South Dakota	0.00	0.00	0.20	0.00	2.52	0.86	3.03	2.05	8.66
Tennessee	0.08	0.00	0.40	0.00	3.32	0.70	2.04	1.96	8.50
Texas	0.00	0.00	0.00	0.00	2.24	0.53	4.08	2.52	9.37
Utah	2.63	0.00	0.23	0.00	2.42	0.67	2.59	1.74	10.28
Vermont	2.18	0.00	0.32	0.00	1.30	0.01	2.54	5.23	11.58
Virginia	2.74	0.00	0.16	0.00	1.10	0.33	2.84	2.06	9.24
Washington	0.00	0.00	0.00	0.00	3.87	0.63	2.23	3.12	9.85
West Virginia	2.28	0.00	0.39	0.00	2.18	0.00	2.09	3.68	10.63
Wisconsin	2.97	0.00	0.39	0.00	2.20	0.14	4.14	1.72	11.55
Wyoming	0.00	0.00	0.00	0.00	2.67	0.82	3.14	6.32	12.95
Mean Values	**1.95**	**0.11**	**0.31**	**0.01**	**2.03**	**0.43**	**2.95**	**2.50**	**10.29**
Standard Deviation	**1.04**	**0.29**	**0.24**	**0.06**	**0.97**	**0.49**	**0.98**	**1.10**	**1.06**
Coefficient of Variation	**53.48**	**259.44**	**78.63**	**707.11**	**47.83**	**113.05**	**33.18**	**43.97**	**10.35**
NYS Diff. from Avg.	1.39	0.72	(0.03)	0.44	(0.67)	0.83	1.43	(0.65)	3.46

Sources: Moody's Economy.com, DOB Staff Estimates

Table 8a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2004					
Year	**Mean**	**NYS**	**Standard Deviation**	**Coeficient of Variation**	**NY difference from mean**
1977	6.56	7.39	1.17	26.08	0.83
1978	6.42	6.91	1.34	20.80	0.49
1979	6.47	6.71	1.70	36.32	0.24
1980	6.45	6.57	2.72	42.21	0.12
1981	6.47	6.43	4.03	62.33	(0.04)
1982	6.62	6.55	3.67	55.48	(0.07)
1983	6.41	6.41	2.58	40.20	0.00
1984	6.58	6.69	2.34	35.55	0.12
1985	6.64	6.89	2.05	30.93	0.26
77-85 avg.	**6.51**	**6.73**			**0.21**
1986	6.61	7.10	2.02	30.52	0.49
1987	6.53	7.22	1.32	20.25	0.69
1988	6.64	7.02	1.41	21.26	0.38
1989	6.57	6.63	1.40	21.31	0.06
1990	6.54	6.75	1.42	21.73	0.21
1991	6.58	6.52	1.59	24.08	(0.07)
1992	6.55	6.64	1.32	20.14	0.09
1993	6.82	6.77	1.62	23.76	(0.05)
1994	6.73	6.99	1.21	18.05	0.26
86-94 avg.	**6.62**	**6.85**			**0.23**
1995	6.88	6.84	1.44	20.91	(0.04)
1996	6.74	6.46	1.33	19.80	(0.28)
1997	6.81	6.26	1.34	19.73	(0.55)
1998	6.71	6.11	1.28	19.01	(0.60)
1999	6.73	6.25	1.31	19.53	(0.49)
2000	6.76	6.29	1.22	18.09	(0.47)
2001	6.69	6.60	1.17	17.53	(0.10)
2002	6.35	6.39	1.12	17.66	0.05
2003	6.31	6.12	1.11	17.61	(0.19)
2004	6.42	6.21	1.14	17.79	(0.21)
95-04 avg.	**6.64**	**6.35**			**(0.29)**

Sources: Moody's Economy.com, DOB Staff Estimates

Table 8b - State/Local Tax Burdens as a Pct. of Personal Inc., 1977 - 2004

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY Difference From Mean
1977	10.52	15.48	1.82	17.34	4.96
1978	10.21	14.68	1.48	14.51	4.47
1979	10.11	13.95	1.80	17.79	3.84
1980	9.94	13.56	2.81	28.29	3.62
1981	9.86	13.21	4.07	41.30	3.35
1982	10.07	13.33	3.74	37.15	3.26
1983	9.95	13.22	2.79	28.03	3.27
1984	10.05	13.43	2.58	25.63	3.39
1985	10.19	13.82	2.37	23.28	3.63
77-85 avg.	**10.10**	**13.85**			**3.75**
1986	10.23	14.09	2.41	23.52	3.86
1987	10.28	14.47	1.65	16.04	4.19
1988	10.38	14.10	1.62	15.63	3.72
1989	10.28	13.67	1.47	14.34	3.39
1990	10.31	13.86	1.49	14.49	3.55
1991	10.43	13.87	1.65	15.81	3.44
1992	10.40	14.11	1.40	13.42	3.71
1993	10.70	14.53	1.72	16.08	3.82
1994	10.63	14.71	1.18	11.07	4.08
86-94 avg.	**10.40**	**14.16**			**3.75**
1995	10.79	14.22	1.41	13.03	3.43
1996	10.55	13.72	1.20	11.34	3.17
1997	10.63	13.55	1.21	11.35	2.92
1998	10.48	13.26	1.12	10.66	2.78
1999	10.45	13.26	1.01	9.68	2.80
2000	10.36	13.10	1.05	10.10	2.74
2001	10.24	13.12	0.97	9.48	2.88
2002	10.12	13.13	0.95	9.42	3.02
2003	10.18	13.45	0.99	9.76	3.27
2004	10.29	13.75	1.05	10.24	3.46
95-04 avg.	**10.41**	**13.46**			**3.05**

Sources: Moody's Economy.com, DOB Staff Estimates

Figure 3 - Distribution of Tax Burden Across States by Tax Type

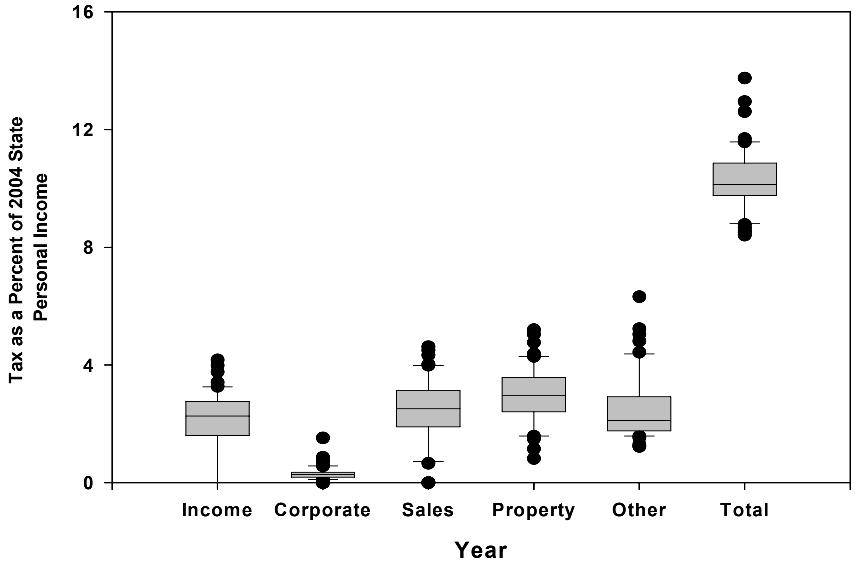


Figure 4 - NYS Difference From U.S. Mean State/Local Tax Burden

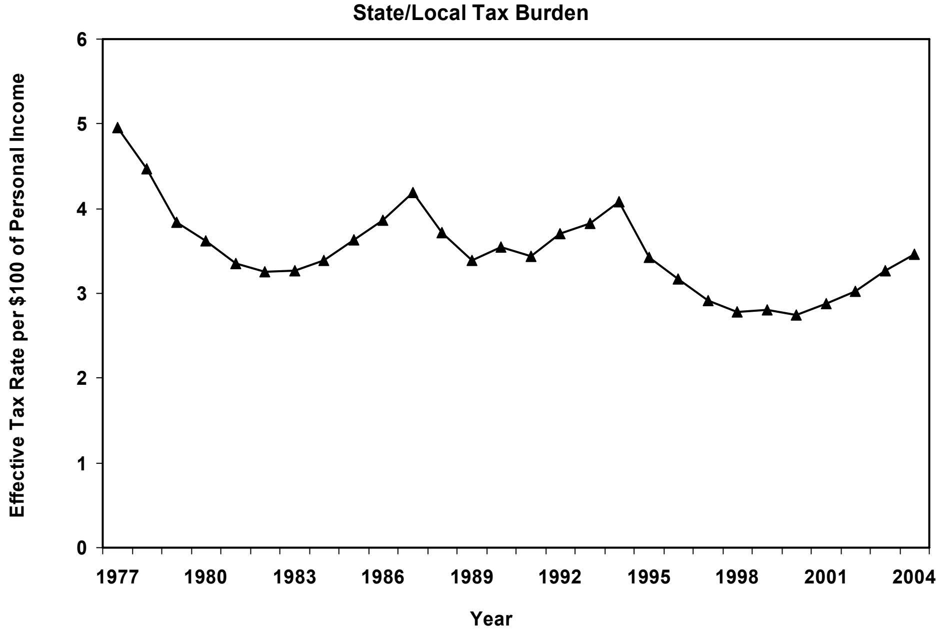


Figure 5 – Changes in Dispersion of State/Local Tax Burdens (Alaska Not Included)

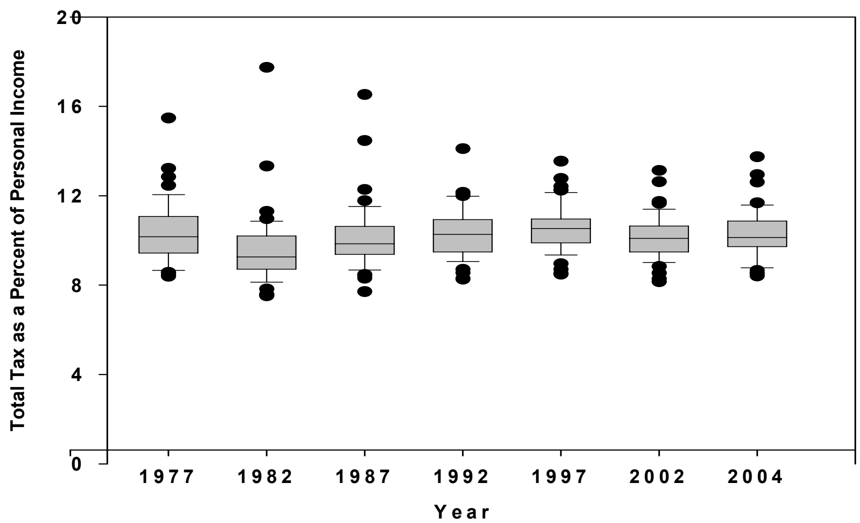


Figure 6 - Changes in Dispersion of State Tax Burdens Over Time (Alaska not Included)

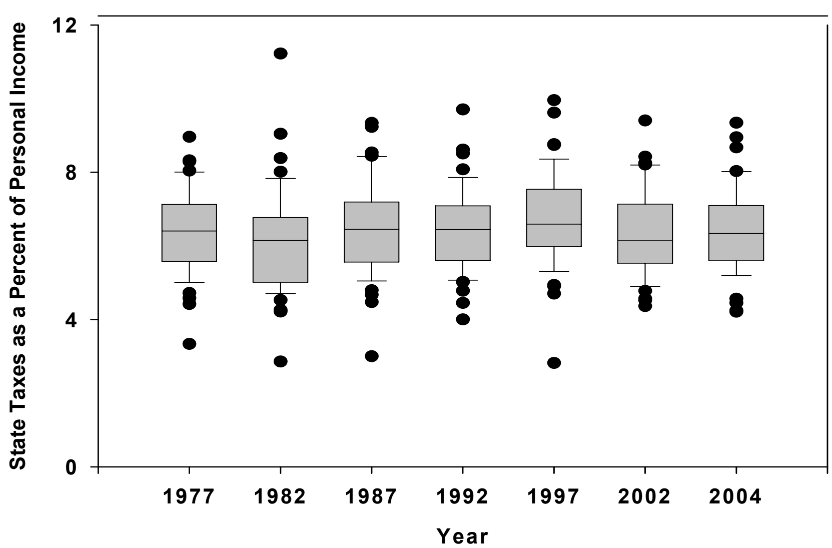


Figure 7 - Changes in Dispersion of Local Tax Burdens Over Time

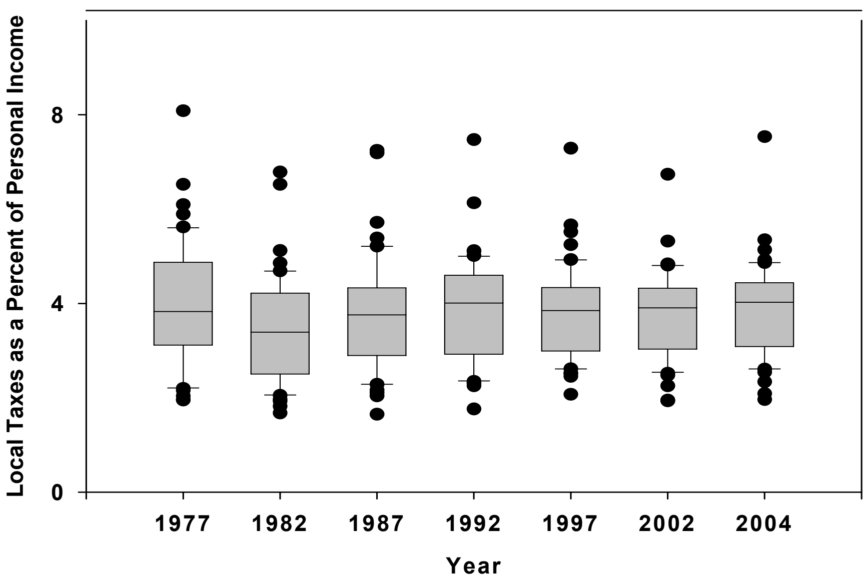


Figure 8 – Changes in Dispersion of Local Property Tax Burdens Over Time

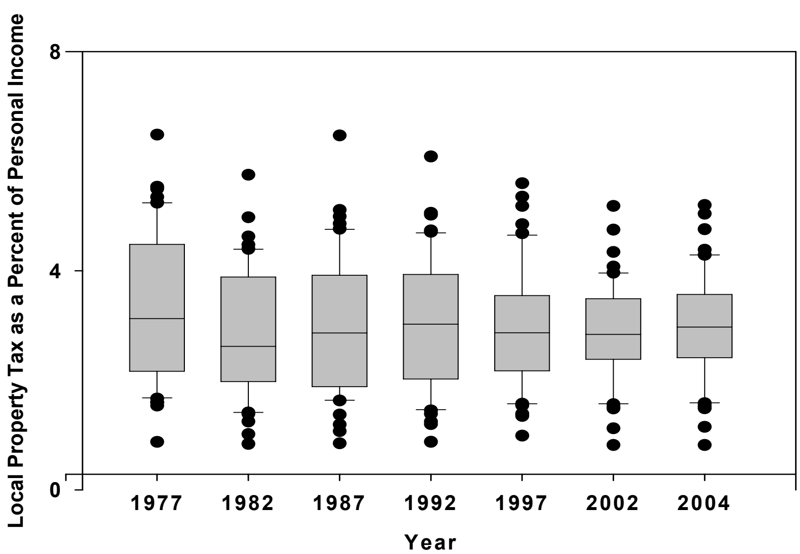


Figure 9 - 1977 State/Local Burden per $100 Personal Income versus Percent Change in Burden, 1977 to 2004

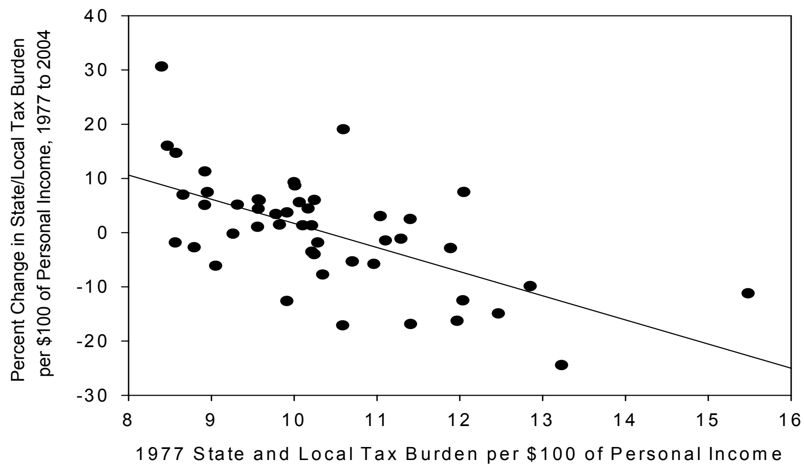


Table 9 - 2005 Property Taxes on Owner-Occupied Housing, by County

County	Median Property Taxes Paid on Homes	Rank	Median Home Value	Taxes as % of Home Value	Rank	Median Income for Home Owners	Taxes as % of Income	Rank
Niagara County	$2,576	137	$91,600	2.8	1	$53,527	4.8	64
Monroe County	$3,266	75	$119,500	2.7	2	$60,032	5.4	42
Onondaga County	$2,747	118	$104,100	2.6	3	$60,500	4.5	86
Wayne County	$2,579	135	$98,700	2.6	4	$58,494	4.4	93
Chautauqua County	$1,948	240	$75,000	2.6	5	$44,882	4.3	102
Erie County	$2,616	129	$102,600	2.5	7	$55,547	4.7	70
Schenectady County	$3,251	79	$128,900	2.5	8	$56,555	5.7	32
Cayuga County	$2,122	213	$87,000	2.4	9	$50,010	4.2	112
Chemung County	$1,902	250	$78,600	2.4	10	$48,270	3.9	143
Oswego County	$1,832	265	$76,900	2.4	13	$49,142	3.7	171
Oneida County	$1,963	235	$82,700	2.4	14	$50,103	3.9	145
Broome County	$1,944	241	$84,100	2.3	18	$47,624	4.1	131
Steuben County	$1,620	342	$70,200	2.3	19	$47,457	3.4	216
Madison County	$2,010	226	$87,900	2.3	23	$51,989	3.9	150
Ontario County	$2,597	131	$114,100	2.3	24	$58,817	4.4	91
Cattaraugus County	$1,574	351	$70,600	2.2	26	$42,873	3.7	179
Tompkins County	$3,088	89	$138,800	2.2	27	$67,549	4.6	82
Rensselaer County	$2,823	109	$133,300	2.1	32	$59,611	4.7	68
Sullivan County	$3,187	84	$157,300	2	41	$56,082	5.7	37
St. Lawrence County	$1,313	438	$68,000	1.9	56	$44,205	3	306
Jefferson County	$1,674	324	$88,400	1.9	65	$52,135	3.2	255
Clinton County	$1,704	309	$98,900	1.7	102	$54,214	3.1	268
Albany County	$2,760	116	$160,200	1.7	103	$69,273	4	137
Orange County	$4,707	21	$292,200	1.6	131	$78,903	6	25
Putnam County	$6,335	9	$403,900	1.6	141	$86,694	7.3	7
Nassau County	$7,025	2	$469,100	1.5	161	$89,320	7.9	3
Suffolk County	$6,131	12	$412,300	1.5	167	$83,915	7.3	8
Ulster County	$3,281	74	$222,200	1.5	169	$63,669	5.2	48
Warren County	$2,035	223	$143,300	1.4	183	$59,547	3.4	215
Saratoga County	$2,538	145	$180,300	1.4	187	$66,840	3.8	156
Rockland County	$6,527	6	$472,200	1.4	192	$96,030	6.8	11
Westchester County	$7,337	1	$541,700	1.4	203	$101,581	7.2	9
Dutchess County	$3,809	41	$306,900	1.2	241	$73,187	5.2	46
Bronx County	$1,923	246	$330,500	0.6	614	$61,778	3.1	275
Queens County	$2,318	176	$420,200	0.6	632	$64,837	3.6	191
Richmond County	$2,379	168	$434,000	0.5	634	$77,872	3.1	287
New York County	$3,499	62	$717,900	0.5	677	$124,694	2.8	341
Kings County	$2,255	189	$471,200	0.5	682	$62,477	3.6	187

Source: U.S. Census Bureau; Tax Foundation calculations.

ASSESSMENT OF FORECAST PERFORMANCE

ASSESSMENT OF FORECAST PERFORMANCE

SUMMARY

The forecast of tax receipts is a critical part of preparing the Financial Plan. The availability of receipts sets an important constraint on the ability of the State to finance spending priorities. However, all forecasts are subject to error. In an area as complex as receipt forecasting, this error can be substantial. The size of the forecast errors can be mitigated by the proper application of forecast tools, but it cannot be eliminated.

The summary table below reviews the forecast performance using several measures and over three time horizons. The period reviewed covers the later half of the 1990s, the period covering 2000-01 to 2005-06 and finally an overall error rate for the entire period. All comparisons are of Enacted Budget estimates to comptroller actuals for a fiscal year. Enacted Budget estimates reflect law changes actually put into place for a year and any revenue consensus reached with the Legislative Fiscal Committee staff.

The All Funds tax forecast over the past 11 years (SFY 1995-96 to 2005-06) has ranged from quite accurate (less than 2 percent error) to considerably less precise (more than 6 percent error). The average absolute error over the period is 3.5 percent while the root mean square error is 4.0 percent. Given the volatility in receipts growth over this period, errors of this magnitude do not appear overly large. During economic expansions, the tax receipt estimates understated actual results. Receipts were significantly overestimated during the 2001-02 economic contraction.

Summary Measures of Forecast Performance

1995-96 to 1999-2000	Percent Error	2001-02 to 2005-06	Percent Error	1995-96 to 2005-06	Percent Error
Total Taxes					
Mean Error	2.5	Mean Error	1.0	Mean Error	1.7
Mean Absolute Error	2.5	Mean Absolute Error	4.4	Mean Absolute Error	3.5
Root Mean Square Error	2.8	Root Mean Square Error	4.8	Root Mean Square Error	4.0
Personal Income Tax					
Mean Error	2.7	Mean Error	0.5	Mean Error	1.5
Mean Absolute Error	2.7	Mean Absolute Error	5.0	Mean Absolute Error	3.9
Root Mean Square Error	2.9	Root Mean Square Error	5.7	Root Mean Square Error	4.7
User Taxes					
Mean Error	1.1	Mean Error	1.0	Mean Error	1.0
Mean Absolute Error	1.4	Mean Absolute Error	1.4	Mean Absolute Error	1.4
Root Mean Square Error	1.7	Root Mean Square Error	2.1	Root Mean Square Error	1.9
Business Taxes					
Mean Error	2.7	Mean Error	1.1	Mean Error	1.9
Mean Absolute Error	3.3	Mean Absolute Error	7.2	Mean Absolute Error	5.4
Root Mean Square Error	4.4	Root Mean Square Error	8.8	Root Mean Square Error	7.2
Other Taxes					
Mean Error	9.7	Mean Error	13.6	Mean Error	11.8
Mean Absolute Error	10.1	Mean Absolute Error	13.6	Mean Absolute Error	12.0
Root Mean Square Error	11.1	Root Mean Square Error	17.4	Root Mean Square Error	14.9

Forecast error is measured here by: 1) mean error (average over the period with positive and negative errors netting); 2) absolute mean error (average over the period with no netting of positive and negative errors) and 3) root mean square error (calculated by first squaring the error, then taking the square root of the arithmetic average of the squared error which shows the size of the errors without regard to sign but it gives greater weight to larger errors).

There are numerous factors that will affect a receipt forecast. Many of them are interrelated and in some cases opposing trends impact the growth path of various taxes simultaneously. This chapter does not attempt to precisely measure the impact of one factor or another on a particular tax or in a particular year but to provide an overview of the major reasons for significant forecast errors. Further, this section will not repeat the description of the tax estimating methodologies and forecast explanations that are described in greater detail in the various chapters of this volume and on the Division website. Estimation errors in general can derive from many sources including:

- Data limitations (revisions);
- Model inadequacy;
- Economic forecast error (national, regional, state);

- Timing issues (including return filing schedules and tax credit carryovers);
- National and international political events or natural disasters; and
- Changes in the policy environment.

While this assessment will try to describe some of the reasons that the actual revenue total diverged from the Enacted Budget projection, no attempt is made to explain variations in other non-tax elements of revenue such as:

- Miscellaneous receipts (including fees and assessments);
- Federal aid; and
- Tuition, patient income and other agency revenues.

SOURCES OF ERROR IN ESTIMATES

Each year as part of the Executive Budget, the Division publishes a national and State economic forecast. This forecast is the foundation for most of the tax estimates. The economic forecast becomes an input to tax receipt models that are used to link economic change to changes in the tax receipt base. Models are simplified versions of reality and as such are subject to error. An error in the forecast model for the economy can lead to an error in projecting tax receipts. Errors in the tax receipt models, independent of the economy, can often amplify the errors in predicting receipts.

Tax collections in New York are dependent on a host of specific factors that are difficult to accurately predict, including national and State economic conditions. Among the more specific factors that can impact New York receipt estimates are:

All Taxes

- National economic activity, especially employment and personal income growth;
- State economic activity, especially employment and income growth;
- Interest rates and inflation;
- One-time actions (that either spin up or delay collections and impact cash flow);
- Court decisions concerning the proper applicability of tax;
- Unanticipated shocks to the economy or tax structure (such as those associated with the September 11th attack);
- State or Federal tax policy actions;
- Tax structures including tax rates and base subject to tax;
- Efficiency of tax collection systems;
- Enforcement efforts, audit activities and voluntary compliance;
- Errors in the estimation of significant tax policy actions;
- Timing of payments (shifting collections from one fiscal year to another);
- Tax Amnesty programs (1994, 1996 and 2003 covering personal income tax, corporate franchise tax, sales tax, estate and gift tax and other minor taxes);
- Timing of Budget enactment; and
- Statutorily mandated accounting changes.

Income Tax

- Large year to year variations in income of wealthy taxpayers, especially the non-wage components of income;
- Financial market activities including equity price changes and bonus payments; and
- Housing activity and prices.

Sales and User Taxes

- Consumption of taxable goods and services;
- Changes in personal income and employment;
- Changes in consumer preferences for goods such as cigarettes and alcoholic beverages; and
- Energy prices and production.

Business Taxes

- Corporate Profits of firms with a significant New York presence;
- Significant variation in audit and compliance receipts; and
- The long lag between economic activity and final determination of corporate tax liability.

EVALUATION OF RISK

A critical factor in budget presentation is identifying risks to the Financial Plan. Knowledge about the current tax trends as well as the factors (economic, legal, regional) that can alter receipts is vital to decision makers. The most important risks are noted both in the DOB economic forecast and in the individual tax stories. All forecast errors impose costs policy makers seek to control in managing the Budget. However, it is not necessarily true that the cost of all forecast errors is the same. From the perspective of the Division, the harm to the State of underestimating tax receipts is relatively mild compared to the damage caused by significantly overestimating results. A significant unanticipated shortfall in tax receipts could result in mid-year spending cuts (or the need to issue deficit financing notes) leading to disruptions in government services provided by the State and its localities. The conservative evaluation of forecast error is the approach followed by most revenue forecasters at all levels of government and is recommended by outside monitors, such as the credit rating agencies and the Citizens Budget Commission.

Over the course of the fiscal year when new information reveals the need to adjust the budget forecast, receipts estimates are revised. However, the Budget Division follows a cautious path in revising forecasts because monthly or quarterly variations in tax collection results can be large and fiscal prudence dictates a relatively cautious approach to revisions within a fiscal year. Of course, a substantial shortfall in expected receipts requires action to control expenditures, thereby requiring timely re-estimates in this case.

REVIEW OF THE ECONOMIC FORECAST

The ability to accurately forecast tax receipts is closely related to the level of volatility in the economy. The review of the State's economic activity is presented in the Economic Overview section of this volume. Generally, economic forecast errors are positively related to tax receipts forecast errors but the tax estimating errors are typically more pronounced because multiple factors beyond economic conditions may impact the estimate. The forecast errors tend to follow the State's business cycle, with underestimates occurring during growth periods and overestimates at the beginning of downturns.

CONSENSUS ECONOMIC FORECASTING

In an attempt to overcome late budgets, a statutory consensus economic and revenue forecasting process was created in 1996. While the discussions are valuable, they are neither joint forecasts nor a formal adoption of the State economic forecast.

The consensus forecast is used as a basis for setting a target for receipts on which the Legislative and Executive branches can agree. Reaching the revenue target facilitates the setting of budget priorities based upon a common assessment of available revenues. The newly enacted Budget reform legislation improves the consensus process by moving up the date for consensus to be reached (March 5) and requiring the State Comptroller to determine a revenue constraint in the absence of agreement between the Executive and Legislative fiscal staff.

A major factor in the accuracy of tax receipts estimates can be the timeframe in which the budget is adopted. Over the last ten years, State budgets have been passed as early as the beginning of the fiscal year and as late as August. Uncertainties concerning projected receipts can be a factor which impacts the timing of the adopted Budget.

This assessment of forecast performance used in this review is based on the DOB's Enacted Budget Report to eliminate differences caused by either the rejection of Executive proposals or legislative action which was not anticipated. It also reflects, for the most part, an agreed-to consensus with the Legislature on available resources. The tax forecasts are updated with the economic outlook at the time the Budget passed and reflect legislation and economic assumptions at the time of enactment.

TAX SOURCE REVIEW

While every effort is made to accurately estimate each State tax source, forecast errors in the largest tax sources have the greatest impact on budgetmaking. Even relatively small percentage differences between the personal income tax estimates in the Enacted Budget and actual collections can account for hundreds of millions of dollars, while relatively large percentage errors in smaller taxes will not sway the State's overall fiscal outlook.

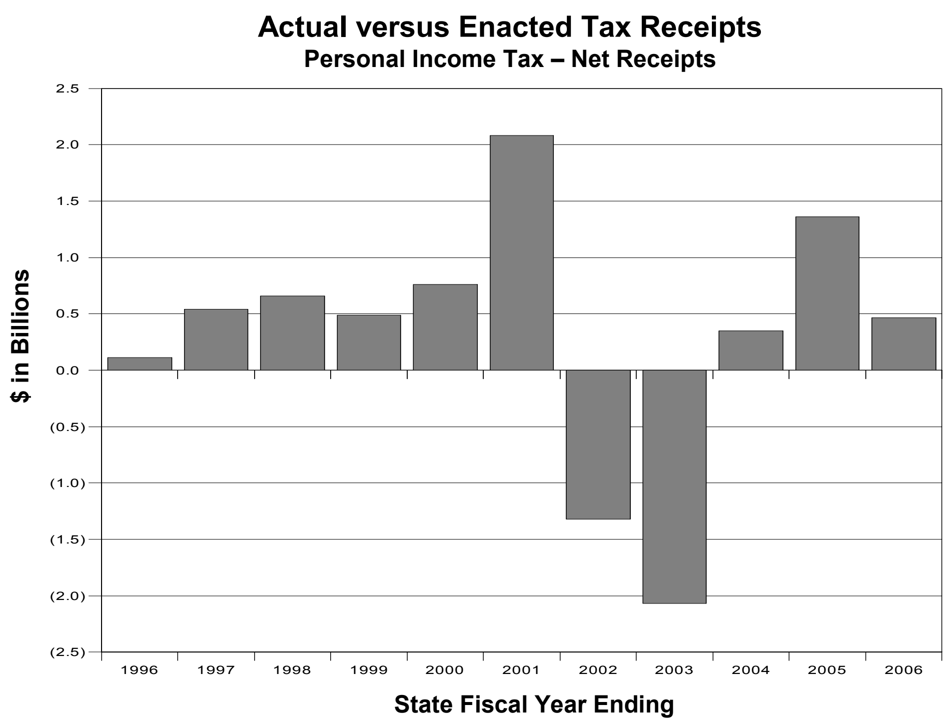
Taxpayer behavior and general economic trends can move in opposite directions, especially in the short run. Unpredictable situations, such as the September 11th attack or some other disruption where the outlook for a large sector of the economy and taxpayer behavior quickly changes direction, pose major risks. Another critical factor in forecasting receipts is accounting for the impact of Federal and State tax policy actions on New York receipts. Since Federal budget actions are typically concluded in the fall (well after State budget enactment), unanticipated changes can alter previously made State forecasts.

Personal Income Tax

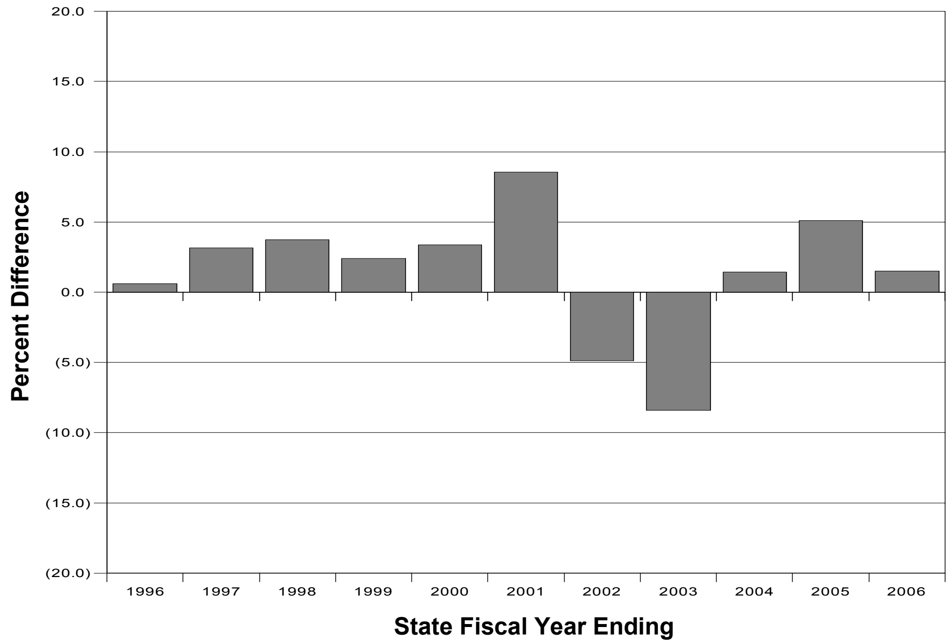
A major difficulty in forecasting the personal income tax is predicting bonus payments and non-wage income components such as capital gains. This income is concentrated among the wealthiest taxpayers and is extremely volatile.

The following charts show the forecast accuracy of both the relatively stable withholding component of the income tax and volatile estimated tax payments. Growth in withholding is generally consistent with wages. The range of variation for withholding estimates was an 8.1 percent underestimate in 2000-01 to a 4.8 percent overestimate in 2002-03. The average absolute error over the eleven-year period is 2.9 percent.

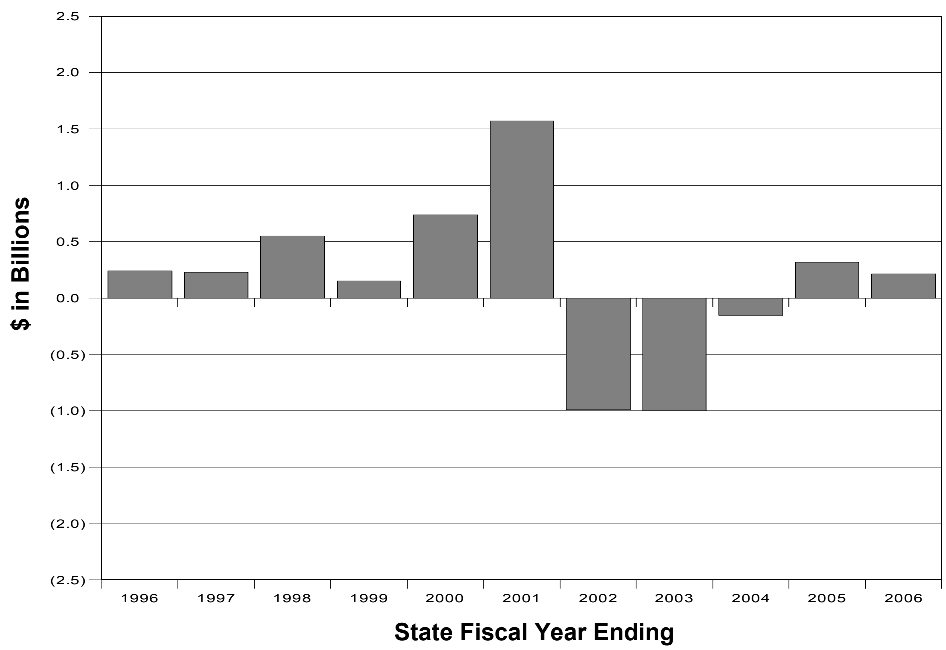
Conversely, the range of forecasting variation for the estimated tax payments was a 14.4 percent underestimate in 2005-06 (a 13.5 percent under estimate in 2004-05) and a 15.6 percent overestimate in 2002-03. The average absolute error during the period was 8.7 percent.

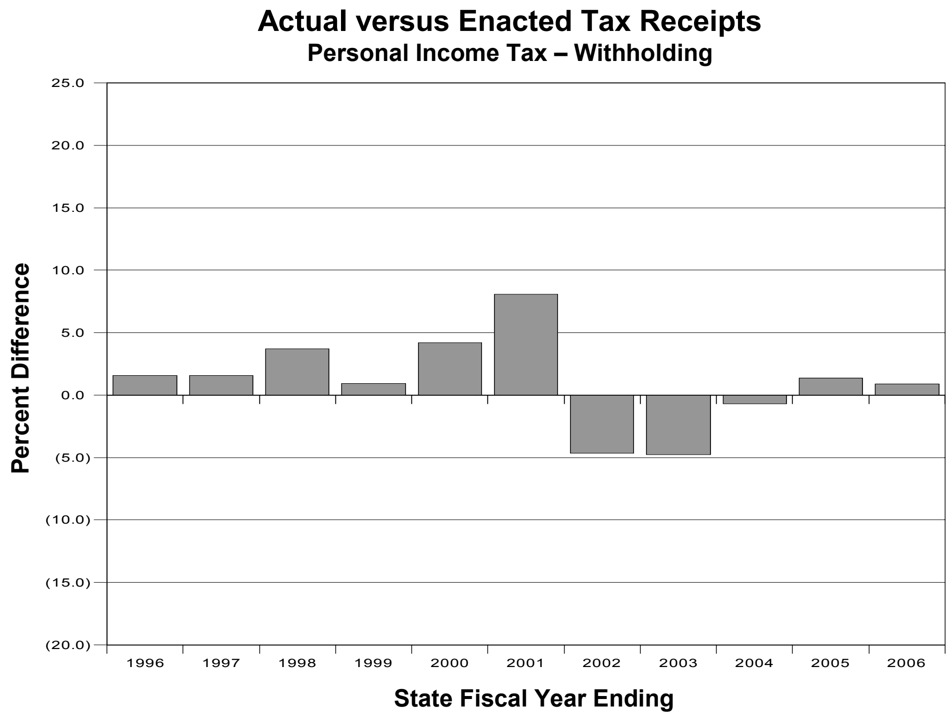


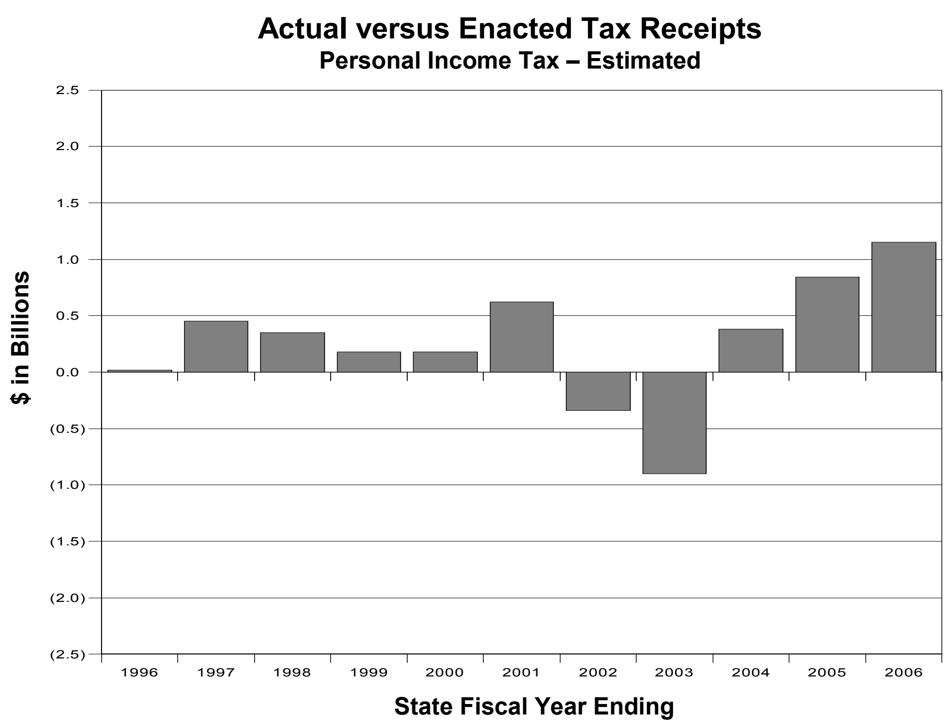
Actual versus Enacted Tax Receipts
Personal Income Tax – Net Receipts

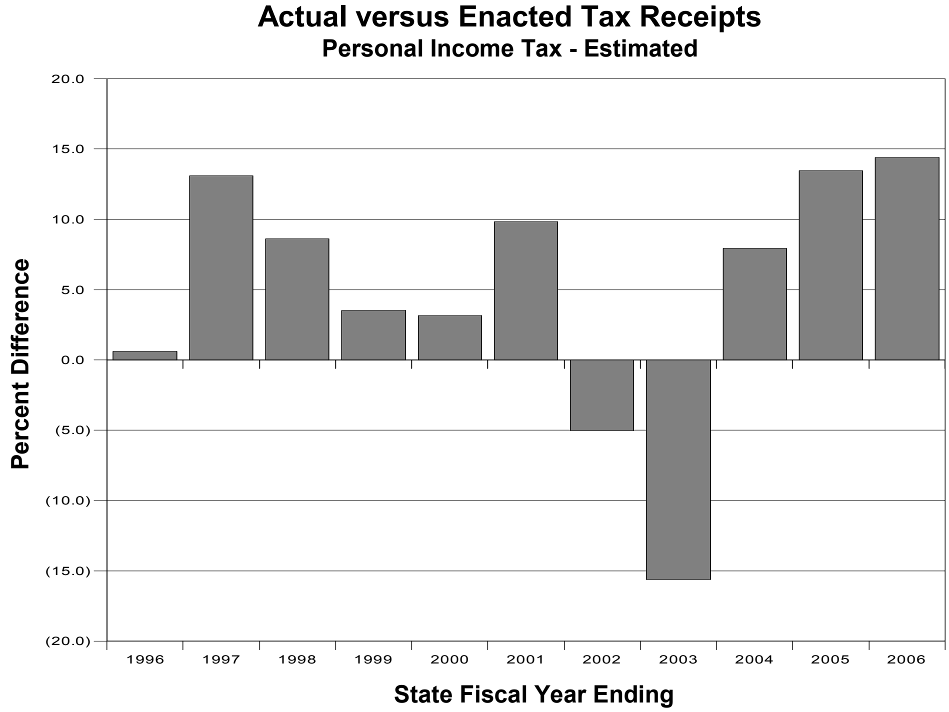


Actual versus Enacted Tax Receipts
Personal Income Tax – Withholding




Actual versus Enacted Tax Receipts
Personal Income Tax – Withholding
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
Percent Difference
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Personal Income Tax – Estimated
2.5
2.0
1.5
1.0
0.5
0.0
(0.5)
(1.0)
(1.5)
(2.0)
(2.5)
$ in Billions
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
State Fiscal Year Ending



Due to the size of these two components, even small percentage errors in forecasting can have a significant impact on the Financial Plan. Withholding taxes accounted for more than $24.8 billion (about 68 percent of the gross personal income tax total) in 2005-06 and estimated taxes accounted for more than $9.2 billion (about 25 percent of the gross total). Further, the estimated tax is also a growing share of overall income taxes. In 2005-06, it provided 29.7 percent of the net total (gross collections minus refunds) compared to 18.7 percent in 1995-96.

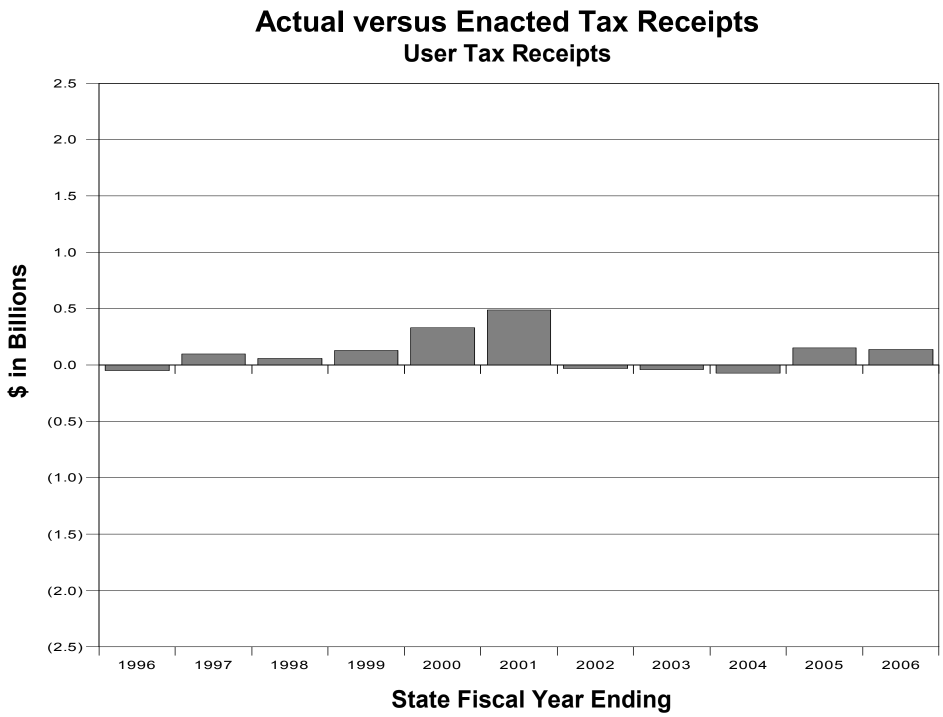
The forecasting error rate for net personal income tax collections as measured in one fiscal year can be influenced by taxpayer behavior. The early or late filing of returns can be seen in terms of the amount of refunds paid or final payments collected. Unusual audit activities (including amnesty programs) which result in assessments can also alter the collection pattern. However, the size of the withholding and estimated tax collections error rates dominates this category. The overall net personal income tax forecasting error rate over the period is 3.9 percent. Historically, the income tax forecasts tend to underestimate receipts, except during the downturns associated with economic recessions and the September 11th attack. This is a typical pattern in the arena of economic and receipt forecasting of underestimating growth during an expansion and over-forecasting results during a recession.

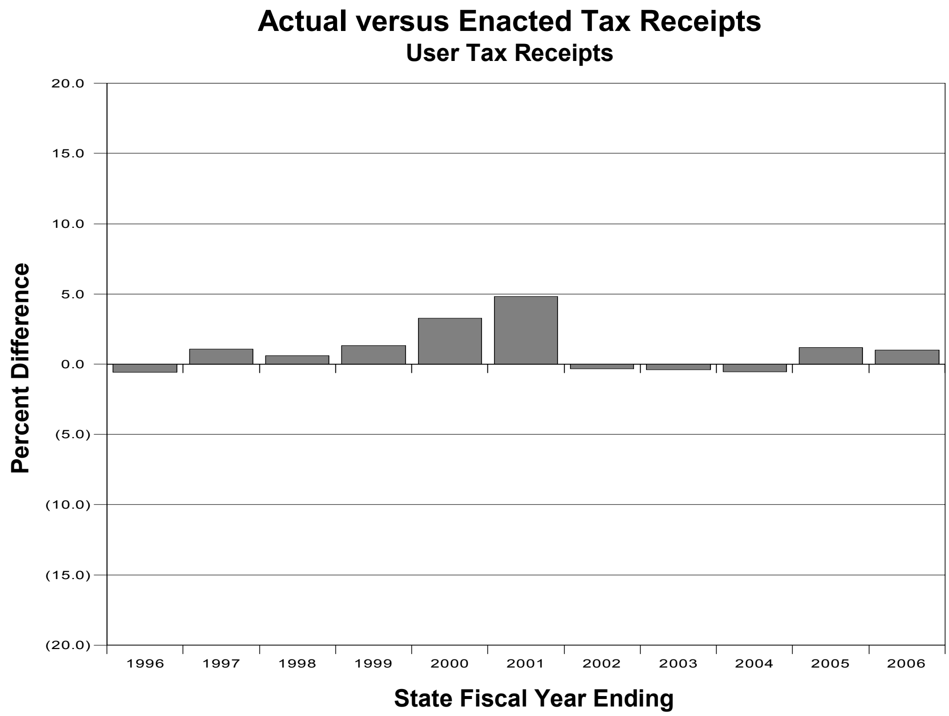
Consumption and User Taxes

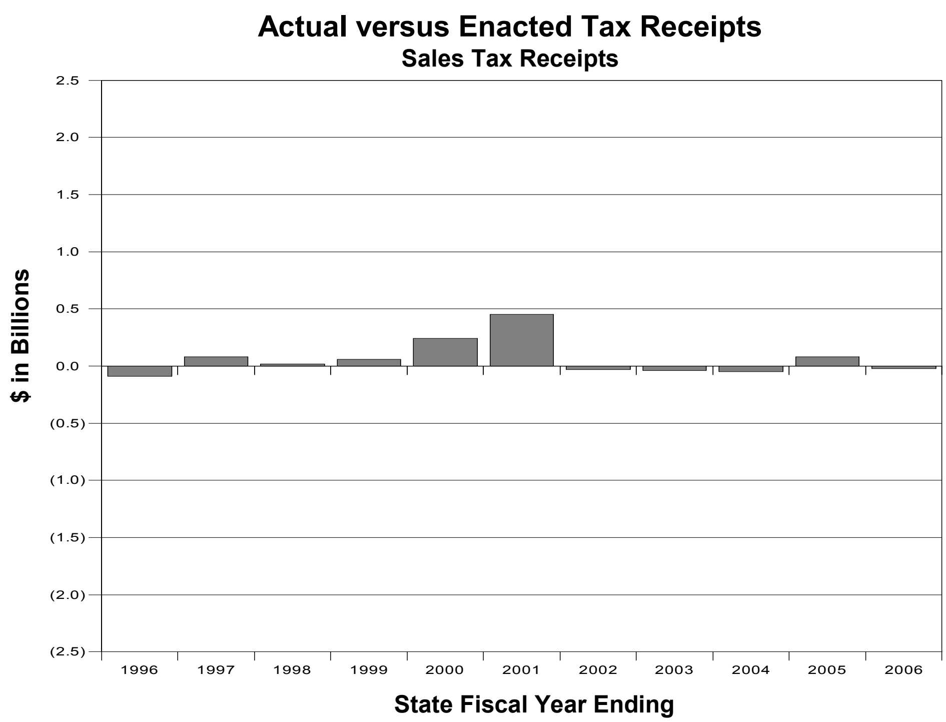
Some of the factors which affect the sales tax forecast are growth in: employment; disposable income; consumption of durable and non-durable goods; consumption of services (taxable); trade employment; business purchases; housing sales; auto sales and consumer confidence. This tax source is fairly stable.

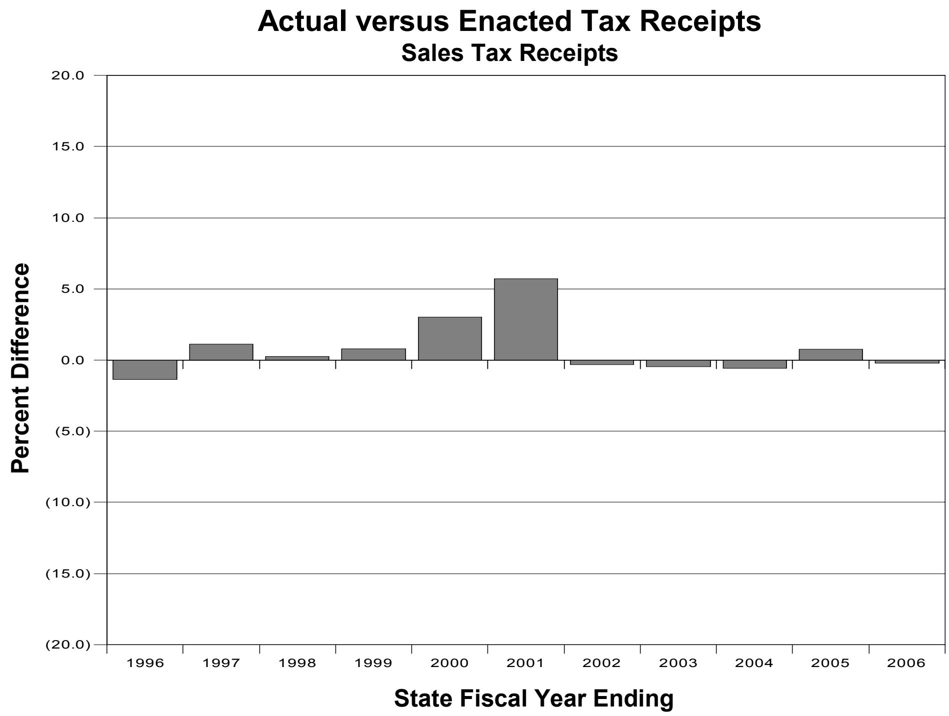
This category of taxes also covers motor fuel taxes, alcoholic beverage taxes and fees as well as cigarette and tobacco taxes. Among the main determinants of tax growth are demand for the product (gallons, liters, packs), price (relative to competitors), consumption patterns and overall economic activity. This group of taxes also has major enforcement issues which must be considered.

These sales and consumption taxes are broad based but forecasting can be complicated by new permanent exemptions, occasional temporary exemptions or rate changes. The forecast error of the consumption taxes ranged from overestimates of less than 1 percent in SFY 1995-96 to an underestimate of nearly 5 percent in 2000-01. Typically, the errors have been under 2 percent.




Actual versus Enacted Tax Receipts
User Tax Receipts
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
Percent Difference
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Sales Tax Receipts
2.5
2.0
1.5
1.0
0.5
0.0
(0.5)
(1.0)
(1.5)
(2.0)
(2.5)
$ in Billions
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
State Fiscal Year Ending



Business Taxes

The major forecasting problem facing an analyst projecting the collection of business taxes is that many factors influencing collections are industry specific leading to many idiosyncratic shocks to the base. Tax collections can be affected by issues which do not necessarily follow broad economic trends (such as insurance underwriting profits, bank mergers, or utility industry restructuring). The various tax forecasts are further complicated by alternative methods of calculating tax liability, use of special deductions, various (and changing) allocation formulas, special tax rates, phase-in schedules for law changes and numerous tax credits (including carry-forward credits). The State's corporate tax bases can also be affected by changes in Federal law, the starting point for calculating New York tax liability.

Further, there can be a significant time lag between economic activity and tax collections. Payments can be irregular and can be significantly impacted by large tax settlements, refunds or audit collections. Collections in one year are the sum of adjustments from a number of previous years as well as from the current tax year activity.

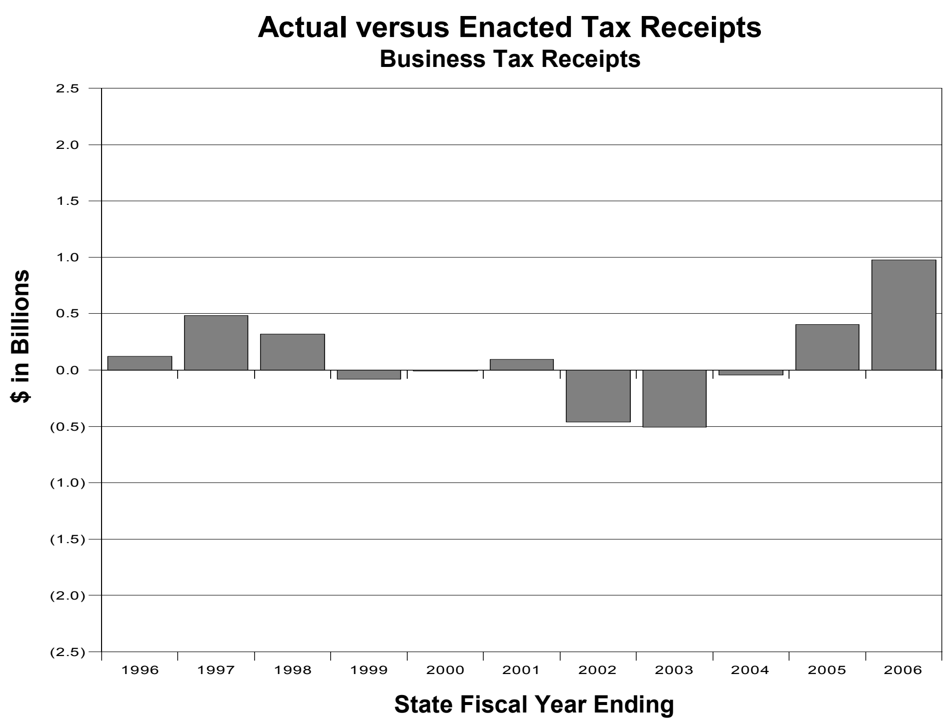
In examining the overall error for business taxes, it should be noted that there are offsetting errors in many years. This effect is more prevalent in this category than in any other. As a result, the business tax dollar error and percent error charts show less overall error than the individual components would otherwise suggest.

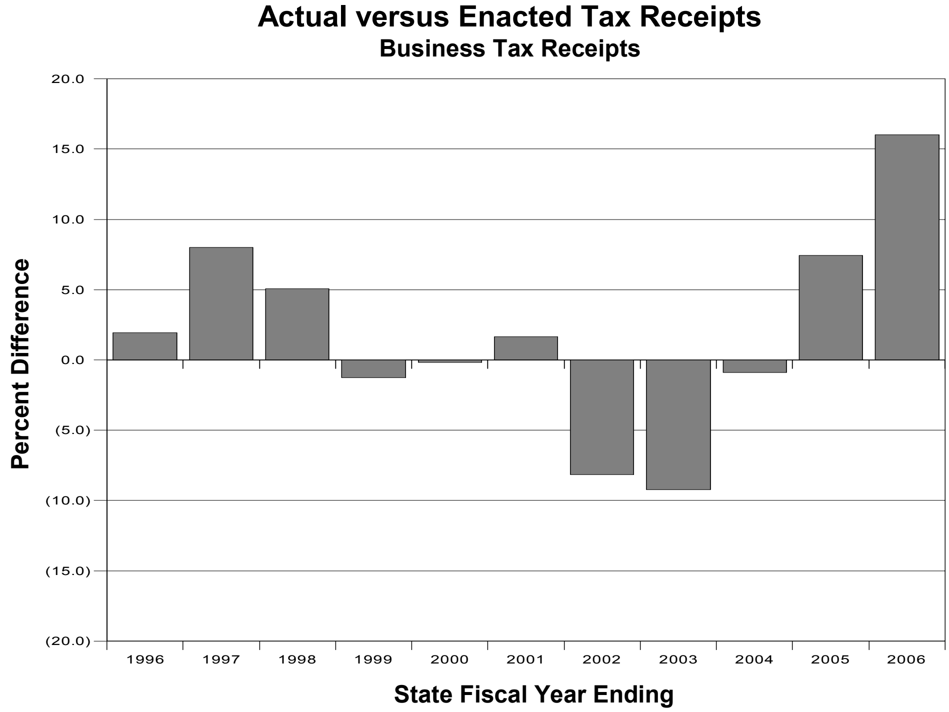
The main economic determinant used in estimating the corporate franchise tax is corporate profits based upon the definition used by the U.S. Bureau of Economic Analysis. It is difficult to match this concept of profits to taxable income since the two differ significantly and the profit reflects a mix of industries. In addition to the risk of inaccurate forecasts of corporate profits, the tax forecast is complicated by numerous out-of-model adjustments for law changes and trends in receipts not adequately captured in the econometric specifications. Further, the ability of corporations to time tax payments for either their own financial reporting or other business purposes or to maximize Federal tax benefits can impact State payments. The forecast error in this area ranged from a 33.9 percent underestimate in 2005-06 to a 24.3 percent overestimation in 2001-02, followed by an 18.6 percent overestimate in 2002-03. The 2005-06 underestimate is attributed to significant growth in audit and compliance receipts, including higher than expected collections from the Voluntary Compliance Initiative (VCI).

Utility taxes are imposed on telecommunications, transportation and the energy sectors. Major changes in the Tax Law (2000) have shifted much of the receipts to the corporate franchise tax discussed above. In addition, utility tax rates were significantly reduced over a number of years. Forecasts of telecommunications sales as well as the demand for electricity and natural gas drive the collections estimate. Prices of energy are also part of the forecast. The forecast for this tax has ranged from a 12.9 percent underestimate in 2001-02 to a 16.1 percent overestimate the following year.

The insurance tax, which covers the life, health and property lines, considers trends in the underwriting markets as well as long term interest rates. Estimates for this tax range from a 28.0 percent underestimate in 1995-96 to a 10.2 percent overestimate in 1999-2000.

Bank tax receipts, while erratic, are related to changes in net interest rate margins. The spread between the ten-year Treasury rate and the effective Federal Funds rate is used as a proxy for profits. Consolidations in the banking industry complicate forecasting. The bank tax has a wide range of forecast error, from 32.7 percent overestimation in 2003-04 to an underestimate of 48.6 percent in 2004-05.





Other Taxes

The major taxes in this category are the estate and gift tax and the real estate transfer tax. While the gift tax was repealed in 2000, collections do continue on estate settlements which included gifts made prior to the repeal. These taxes can be highly variable and can be influenced by relatively few large taxpayers or economic activity in certain regions.

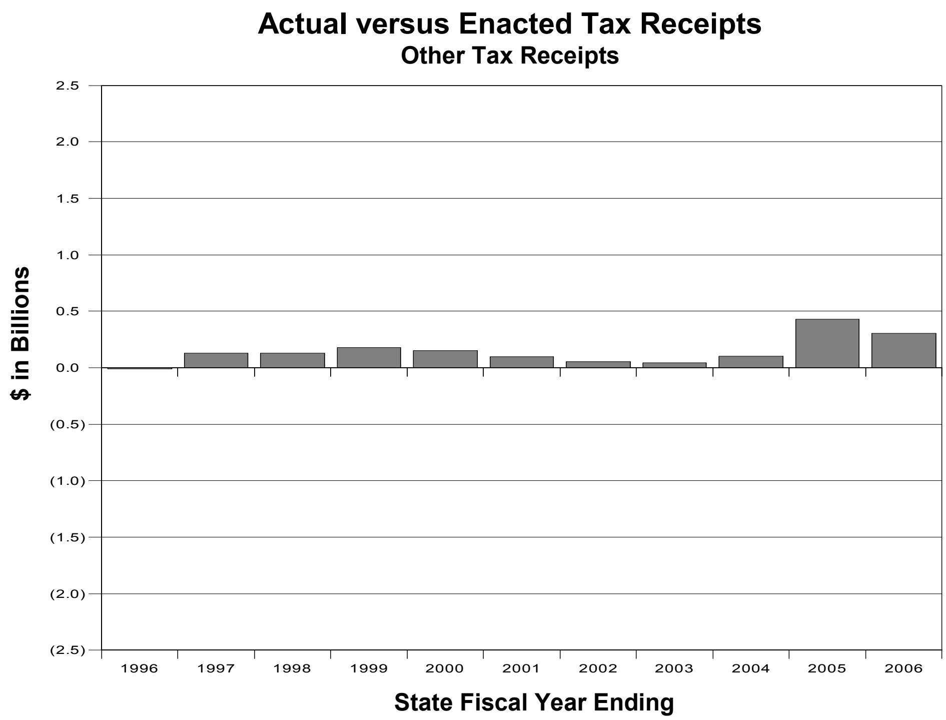
The estate and gift tax forecasting variations can be almost completely explained by changes in the relatively small number of extremely high-valued estates. This relationship has been much more pronounced recently as taxes on many small estates have been eliminated due to an increase in the exemption level to $1 million (unified credit). Federal tax law and State law changes can affect the timing of payments. Estate planning techniques can also impact collections.

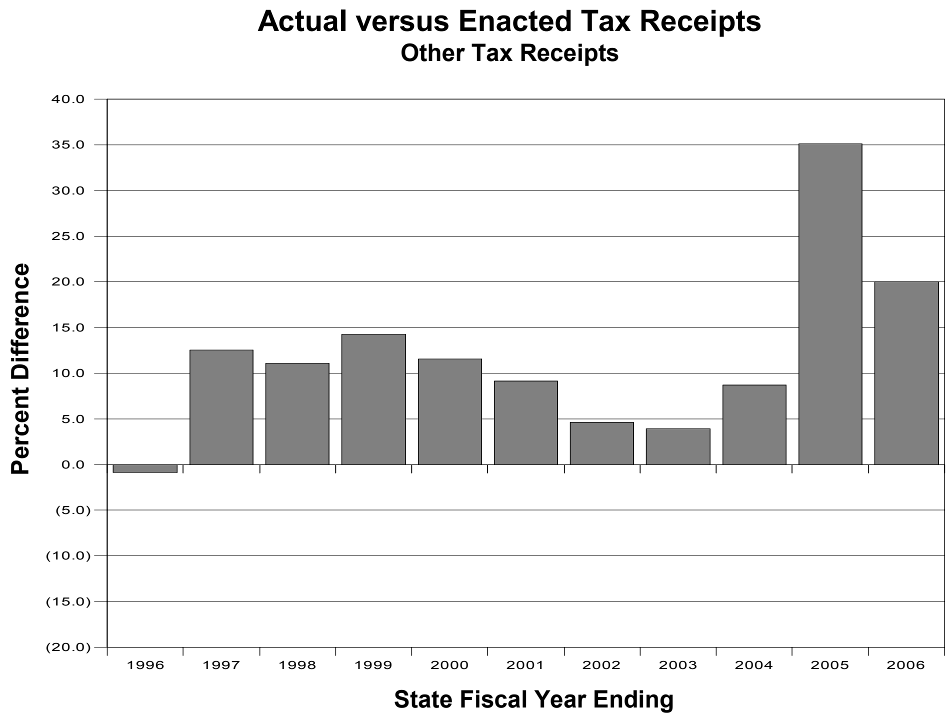
The variation in the estate and gift tax estimates from the Enacted Budget to the actual amount ranged from a 29.2 percent underestimate in 1996-97 to a 6.2 percent overestimate in 2002-03. The underestimates, especially between 1996-97 and 1999-2000 appear to relate to the number and size of super-large estates (tax payments of $25 million or more) and extra-large estates (tax payments of $4 million to $25 million). The growth in the equities market during this period fueled much of the growth in these estates but it is only loosely correlated with tax liability.

The high degree of risk associated with this tax is clearly seen in the final collection total for 2004-05. Extraordinarily high collections received in January and February 2005 turned a predicted 12.0 percent year-over-year decline in receipts into a 22.8 percent increase.

The real estate transfer tax is another highly variable source. Collections are closely related to mortgage rate changes, housing starts, average housing prices (especially downstate), Manhattan vacancy rates and nonresidential construction. This tax includes a special rate for high-value residential property, with the share of total collections from this segment growing at a rapid rate in recent years. The size of this tax source has increased from less than $200 million in 1995-96 to more than $930 million in 2005-06.

While the percentage variation between the Enacted Budget forecast and actual transfer tax collections has had a wide range over the years, the dollar amounts have been between $20 million and $269 million. Recent experience of the past two years of extraordinary growth tracks the increase in housing prices, especially in the downstate area. The value and volume of downstate commercial transactions has also created a substantial unanticipated growth. The sales of extremely large parcels and the risk that current market strength may not continue unabated have made this source more vulnerable to miscalculation than most other taxes. Given the volatility in this area, extreme caution is prudent and this tends to lead to a more conservative forecasting approach for these taxes.




Actual versus Enacted Tax Receipts
Other Tax Receipts
Percent Difference
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
1996
1997
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1999
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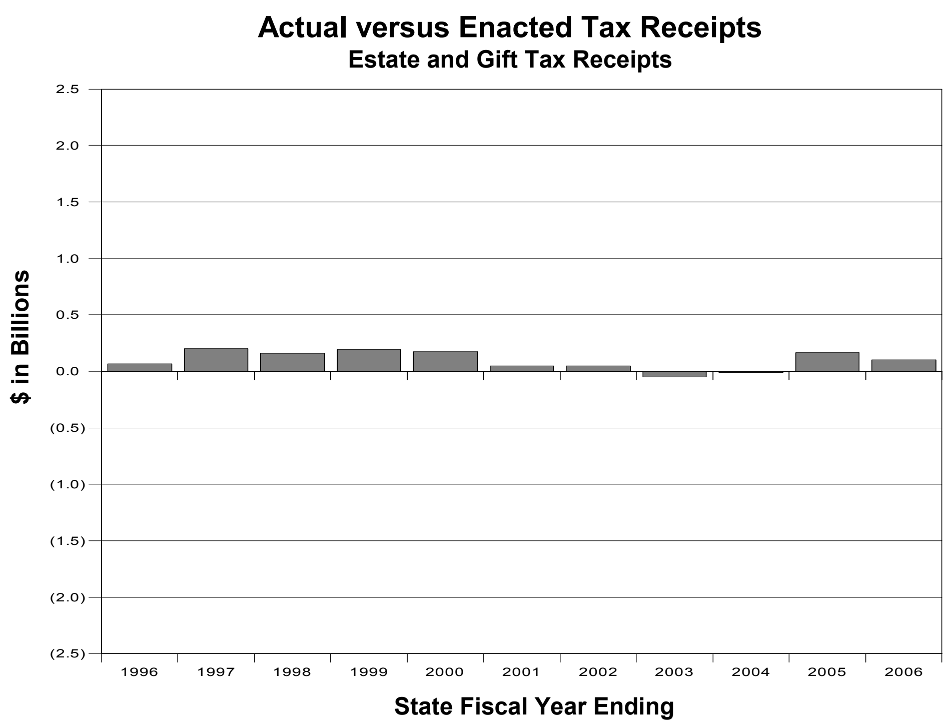
2001
2002
2003
2004
2005
2006
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Estate and Gift Tax Receipts
$ in Billions
2.5
2.0
1.5
1.0
0.5
0.0
(0.5)
(1.0)
(1.5)
(2.0)
(2.5)
1996
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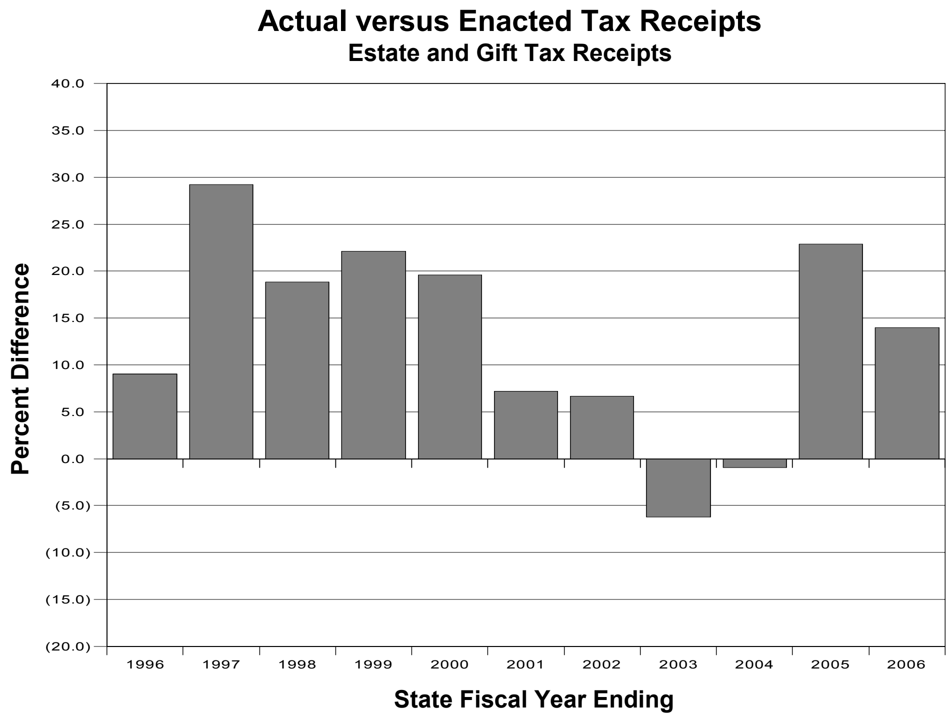
2003
2004
2005
2006
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Estate and Gift Tax Receipts
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
(5.0)
(10.0)
(15.0)
(20.0)
Percent Difference
1996
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1998
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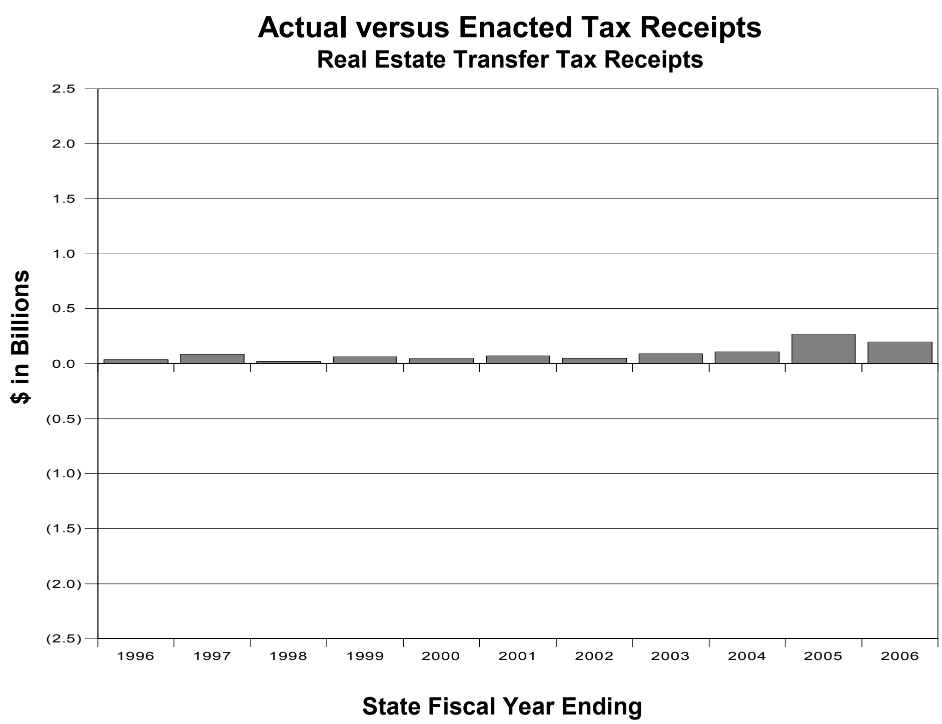
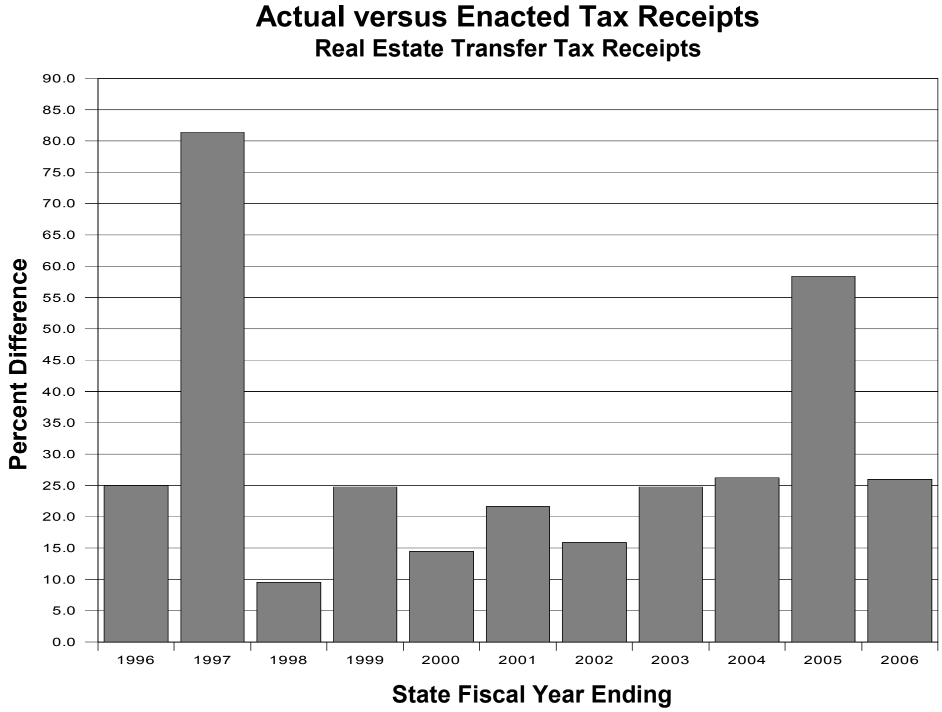
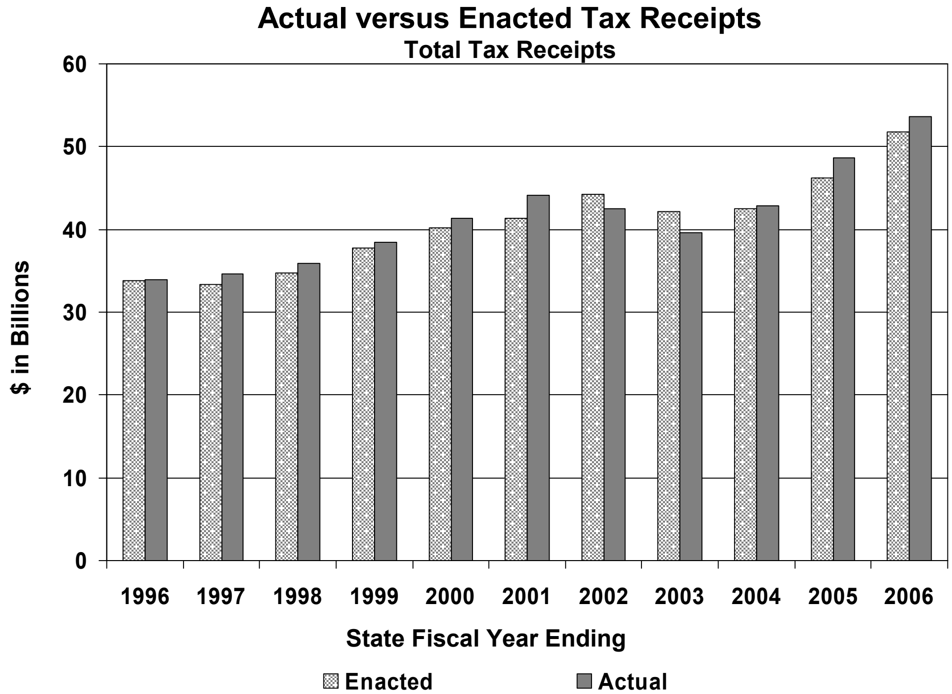
2002
2003
2004
2005
2006
State Fiscal Year Ending


Actual versus Enacted Tax Receipts
Real Estate Transfer Tax Receipts
2.5
2.0
1.5
1.0
0.5
0.0
(0.5)
(1.0)
(1.5)
(2.0)
(2.5)
$ in Billions
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
State Fiscal Year Ending



While lottery proceeds are not considered a tax source, they are forecast for budget purposes. The main factors affecting lottery receipts are game promotion, prize payouts and gaming opportunities (number of terminals, drawings, VLT venues). Economic conditions seem to have little explanatory powers in predicting lottery receipts. The variation in lottery receipts forecasts is modest over the 11 year period with five overestimates ranging from 1 percent to 5.7 percent and six underestimates of 4 percent or less.

Review of Forecast Results



While there are various techniques for measuring errors, there is no generally accepted standard for judging receipt forecasts. Clearly, smaller errors are preferred to large misses. However, consistent with standards used by outside fiscal monitors, it is preferable to underestimate receipts as this provides a cushion against unplanned events.

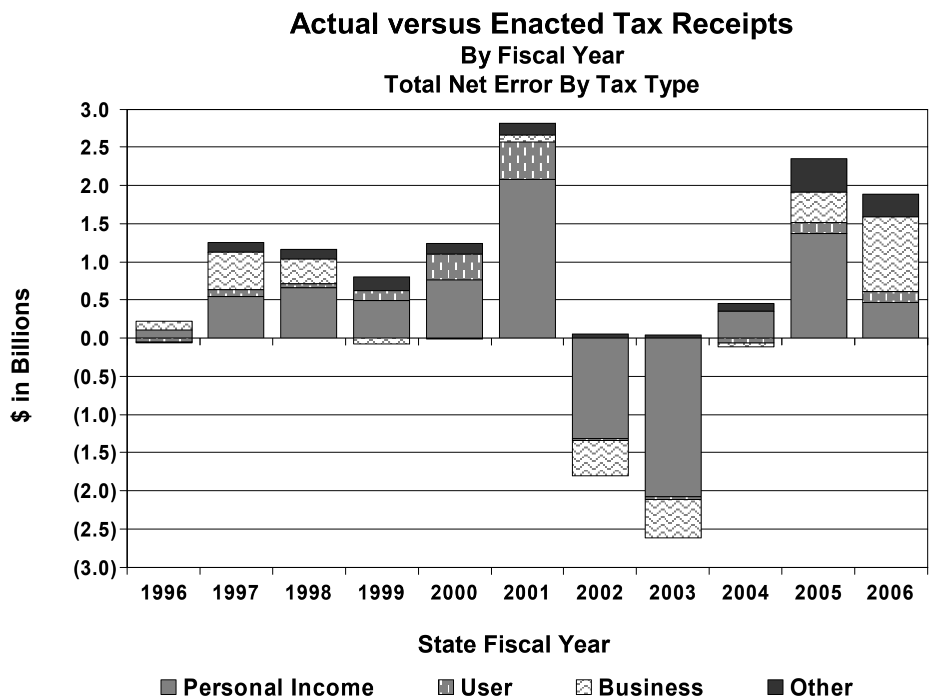
Using this standard, the Enacted Budget tax forecasts can generally be described as:

1. Good for net personal income tax, with an error range of an 8.4 percent overestimate in 2002-03 to an 8.5 percent underestimate in 2000-01. Results are generally in the range of a 3-5 percent, absent extraordinary circumstances (such as the September 11th attack). The average absolute error over the eleven-year period was 3.9 percent. The root mean square error was 4.7 percent.
2. Consistently good on sales and excise type taxes with a variation range of 0.6 percent overestimate in 1995-96 to 4.8 percent underestimate in 2000-01. The average absolute error over the 11 year period was an under estimate of 1.4 percent. The root mean square error was 1.9 percent.
3. Good on business taxes overall, with a range from a 9.2 percent overestimate in 2002-03 to a 16.0 percent underestimate in 2005-06 but with wider variation in the forecast accuracy of the individual taxes. The overall average absolute error rate over the eleven year period was 5.4 percent. However; the error rate in four of the last five years has been over 7 percent. The root mean square error rate was 7.2 percent over the entire period with an 8.8 percent rate over the last six years.
4. Generally large variation for the major “other taxes” (real estate transfer, estate taxes), with a range from 0.9 percent overestimate to a 35.1 percent underestimate (errors were greater than 5 percent in eight of eleven years and greater than

10 percent in six of 11 years). The average error over the period was 12.0 percent. The error measured on the root mean square basis reached nearly 15 percent. These taxes regularly represent a relatively small (dollar) but very uncertain component in the State's Financial Plan and are consistently estimated in a conservative fashion.

One method of evaluating overall forecast error is in terms of how each tax source contributes to overall net error. The following chart shows the share of net total error by year over the 11 year period. As expected, errors in the personal income tax, the largest source, contribute the greatest share to the total error. The personal income tax share of the overall error is generally in the range of 60 to 80 percent.

Corporate tax errors typically contribute the next largest share of the total variance. This, however, was the largest source of error in 2005-06. User taxes occasionally accounted for a significant share but only in years when the total net error was small (1995-96, 1998-99 and 2003-04). Other taxes, due to their relatively small size, contributed significantly to the total error only four times (1998-99, 2003-04, 2004-2005 and 2005-06).



Conclusion

Overall, the tax forecasts have been both reasonable and consistent with errors made by economists and other fiscal forecasters. The average absolute error is about 3.5 percent (4.0 percent on a root mean square basis which usually gives a better indication of accuracy, according to a 2004 CBO report). The error rate excluding the 2001-02 year was 3.3 percent. Forecasts have been cautious, especially when the State economy moved from weakness to strength and during economic expansions, resulting in underestimates in most years. The pattern of the tax forecasting errors generally parallels economic forecasting errors (employment, wages).

Due to its size and importance to the Financial Plan, personal income tax forecast errors are the most significant. Large percentage forecast errors have most often occurred in tax sources which are associated with high value transactions (capital gains, estate settlements, property transfers). Extra caution is required to avoid overestimation of these taxes. However, even large percent errors in "minor" tax sources are not as critical as small errors in the major sources.

The impact of the September 11th attack on the State's tax receipts was highly unpredictable. While the forecast in 2002-03 took the impact of the attack into consideration, there was still an overestimation of the major tax sources. An expected quick recovery did not occur and instead the State remained in recession.

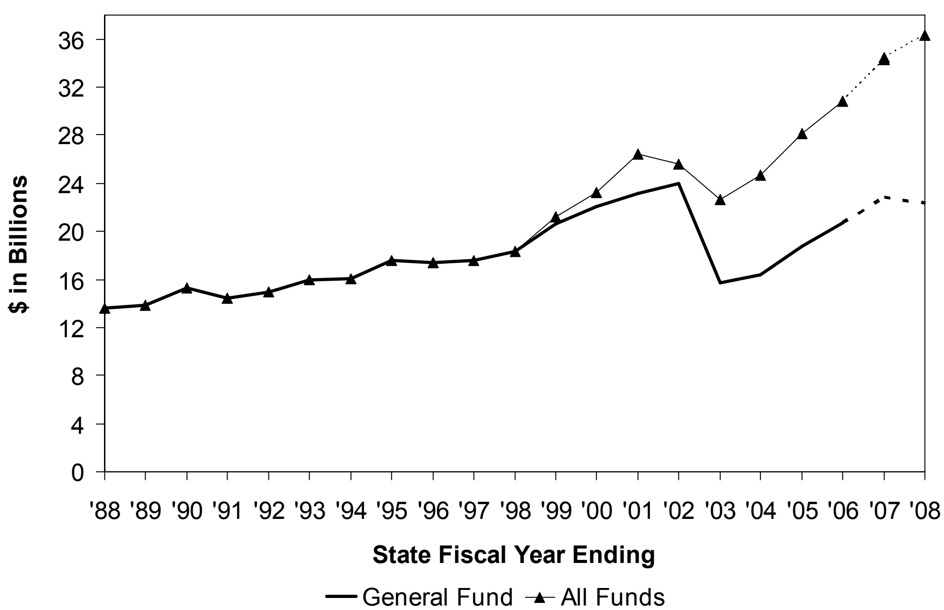
TAX RECEIPTS

PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	20,699.8	22,828.0	2,128.2	10.3	22,258.0	(570.0)	(2.5)
Other Funds	10,113.1	11,606.0	1,492.9	14.8	14,016.0	2,410.0	20.8
All Funds	30,812.9	34,434.0	3,621.1	11.8	36,274.0	1,840.0	5.3

Note: Totals may differ due to rounding.

Personal Income Tax Receipts
History and Estimates



PERSONAL INCOME TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund Receipts	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
1997-98	21,088	2,799	18,289	0	0	18,289
1998-99	22,789	2,795	19,994	582	0	20,576
1999-2000	25,041	3,041	22,000	1,195	0	23,195
2000-01	26,744	3,629	23,115	3,077	250	26,442
2001-02	27,529	3,515	24,014	1,310	250	25,574
2002-03	20,037	4,296	15,741	2,664	4,243	22,648
2003-04	20,813	4,442	16,371	2,819	5,457	24,647
2004-05	23,448	4,668	18,781	3,059	6,260	28,100
2005-06	26,431	5,731	20,700	3,213	6,900	30,813
Estimated						
2006-07	28,358	5,530	22,828	3,996	7,610	34,434
2007-08						
Current Law	30,689	6,314	24,375	3,737	8,125	36,238
Proposed Law	28,572	6,314	22,258	4,948	9,068	36,274

[1] School Tax Relief Fund.
[2] Debt Reduction Reserve Fund and Revenue Bond Tax Fund.

PROPOSED LEGISLATION

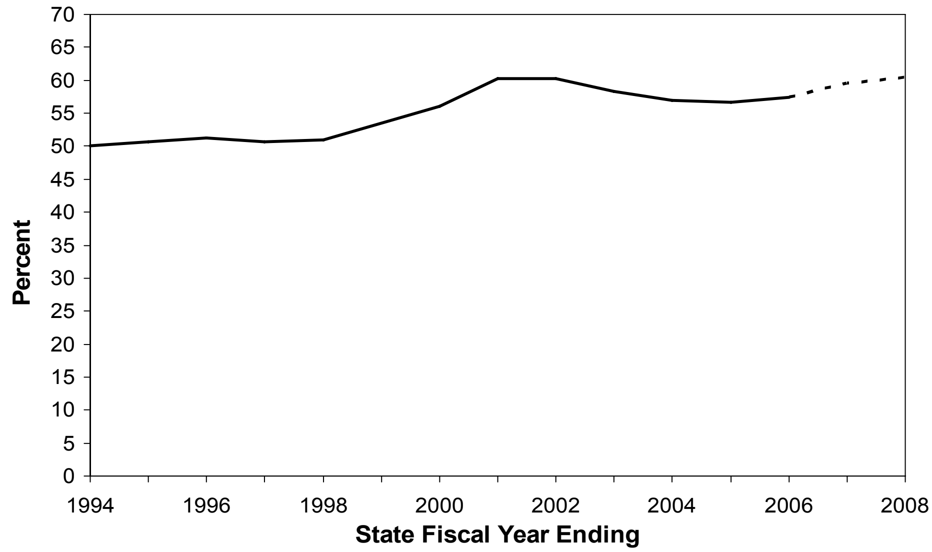
Legislation proposed with this Budget would:

- Enhance the School Tax Relief (STAR) program to increase basic and enhanced exemption amounts for all but the wealthiest homeowners, create a new enriched middle income basic exemption based on income and region, and increase the STAR credit amounts provided through the New York City personal income tax.
- Repeal the credit for school property taxes as this program is subsumed under Governor Spitzer's STAR expansion to middle-class taxpayers.
- Allow a tuition deduction of up to $1,000 to resident parents to make education alternatives more affordable.
- Restructure limited liability company (LLC) fees so that they more accurately reflect New York business activity.
- Allow the Department of Taxation and Finance to re-allocate partnership income in cases where it finds tax avoidance in the form of income shifting.
- Require certain Federal S corporations to become New York S corporations to close a loophole that allows individuals to avoid paying personal income tax.
- Conform the treatment of taxpayers that itemize State and local sales and compensating use taxes to taxpayers that itemize State and local income taxes.
- Continue to deter the use of tax shelters by making permanent the authorization for the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable transactions.
- Change the computation of the Revenue Bond Tax Fund (RBTF) transfer so that it is calculated before deposits to the STAR Fund.

DESCRIPTION

The personal income tax is by far New York State's largest source of tax receipts. It is estimated that the personal income tax will account for approximately 60 percent of All Funds tax receipts in 2006-07 and 2007-08.

PIT Receipts as Share of All Funds Tax Receipts



Note: PIT Receipts are defined as gross receipts minus refunds

Tax Base

The State's personal income tax structure adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications, such as: (1) the inclusion of investment income from debt instruments issued by other states and municipalities and the exclusion of income on certain Federal obligations; (2) the exclusion of pension income received by Federal, New York State and local government employees, private pension and annuity income up to $20,000 ($40,000 for married couples filing jointly), and any Social Security income and refunds otherwise included in Federal adjusted gross income; and (3) the subtraction of State and local income taxes from Federal itemized deductions.

Since 1991, the Federal limit on itemized deductions for taxpayers with Federal adjusted gross income (AGI) above a certain threshold has been applied to itemized deductions under the State personal income tax. This threshold amount, set at $100,000 ($50,000 for married couples filing separately) in 1991, is indexed for inflation. For 2007, the threshold is $156,400 ($78,200 for married couples filing separately). Allowable itemized deductions, except for medical expenses, casualty and theft losses, and interest payments, are reduced by the lower of either 3 percent of Federal adjusted gross income in excess of the threshold amount or 80 percent of allowable itemized deductions, and further reduced by up to 50 percent for upper-income taxpayers.

The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provides that the limitation on itemized deductions will be phased out over four years beginning in 2006. The limitation will be eliminated for 2010 and thereafter. New York law automatically adopts this phaseout.

Tax Rates and Structure

As shown in the table below, for the 1989 through 1994 tax years, the tax was imposed at rates ranging from 4 percent to 7.875 percent on the taxable income of individuals, estates and trusts. In 1991, a supplemental tax was applied to taxpayers with $100,000 or more of AGI to recapture the benefit of the marginal tax rates in the lower brackets. In 1995, personal income tax rates were gradually reduced over three years. These reductions reduced the top tax rates from 7.875 to its current rate of 6.85 percent, increased the income thresholds applicable to various tax brackets, and increased the standard deduction. In tax years 2003, 2004, and 2005, a temporary personal income tax surcharge added two new brackets applicable to taxpayers with AGI over $150,000 and AGI over $500,000, and increased the top rate to 7.7 percent. In 2006, the top rate of 6.85 reflected the sunset of the temporary surcharge, and the increase in the standard deduction for married filing jointly taxpayers implemented in 2006.

TABLE 1
PERSONAL INCOME TOP TAX RATES, STANDARD DEDUCTIONS, AND DEPENDENT EXEMPTIONS

	1989-1994	1995	1996	1997-2000	2001	2002	2003-2005	2006 And After
Top Rate (percent)	7.875	7.59375	7.125	6.85	6.85	6.85	7.70	6.85
Thresholds								
Married Filing Jointly	26,000	25,000	26,000	40,000	40,000	40,000	500,000	40,000
Single	13,000	12,500	13,000	20,000	20,000	20,000	500,000	20,000
Head of Household	17,000	19,000	17,000	30,000	30,000	30,000	500,000	30,000
Standard Deduction								
Married Filing Jointly	9,500	10,800	12,350	13,000	13,400	14,200	14,600	15,000
Single	6,000	6,600	7,400	7,500	7,500	7,500	7,500	7,500
Head of Household	7,000	8,150	10,000	10,500	10,500	10,500	10,500	10,500
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000

TABLE 2
TAX SCHEDULES FOR 2007 LIABILITY YEAR*
(dollars)

Married - Filing Jointly			Single			Head of Household		
Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over	Taxable Income	Tax Rate Percent	Of Amt. Over
0 to 16,000	0 +4.00	0	0 to 8,000	0 +4.00	0	0 to 11,000	0 +4.00	0
16,000 to 22,000	640 +4.50	16,000	8,000 to 11,000	320 +4.50	8,000	11,000 to 15,000	440 +4.50	11,000
22,000 to 26,000	910 +5.25	22,000	11,000 to 13,000	455 +5.25	11,000	15,000 to 17,000	620 +5.25	15,000
26,000 to 40,000	1,120 +5.90	26,000	13,000 to 20,000	560 +5.90	13,000	17,000 to 30,000	725 +5.90	17,000
40,000 and over	1,946 +6.85	40,000	20,000 and over	973 +6.85	20,000	30,000 and over	1,492 +6.85	30,000

*Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above $100,000.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The personal income tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to adjust State tax liability. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Credits

Current law authorizes a wide variety of credits against personal income tax liability. The major credits are:

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and thereafter. Starting in 1996, the EITC is offset by the amount of the household credit. The EITC was raised to 22.5 percent of the Federal credit in 2000, 25 percent in 2001, 27.5 percent in 2002, and 30 percent in 2003 and thereafter. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 provided marriage penalty relief for married taxpayers filing jointly by increasing the phase-out range for the credit beginning in 2002.
Household Credit	Permitted for single taxpayers in amounts declining from $75 to $20, as their household income rises to $28,000, and for married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level.
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equals 110 percent for incomes up to $25,000, phases down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equals 100 percent for incomes between $40,000 and $50,000, phases down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equals 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. Federal legislation enacted in 2001 and effective in 2003 increased maximum allowable expenses from $2,400 to $3,000 for one dependent ($4,800 to $6,000 for two or more dependents); the maximum credit rate from 30 percent to 35 percent; and the income at which the credit begins to phase down from $10,000 to $15,000.
College Tuition Tax Credit	Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. It was phased in over a four-year period with applicable percentages of allowed tuition expenses beginning at 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter. For 2004, and thereafter the minimum credit is the lesser of tuition paid or $200 and the maximum credit is $400 (4 percent of expenses up to $10,000).
Real Property Tax Circuit Breaker Credit	Based on a more inclusive definition of income than that used generally in the income tax. For eligible taxpayers over the age of 65, the credit ranges downward from $375 as income rises to $18,000; for other taxpayers, the credit can be as high as $75.
Agricultural Property Tax Credit	Permitted for allowable school district property taxes paid by an eligible farmer on qualified agricultural property.
Empire State Child Credit	Effective in 2006, this refundable credit for children ages 4-16 equals the greater of $100 times the number of children qualifying for the Federal credit or 33 percent of the Federal credit.

Credit	Description
Long Term Care Insurance Credit	A non-refundable credit equal to 10 percent of a taxpayer's long-term care insurance premium became effective in 2002. The credit amount was increased to 20 percent in 2004. Unused amounts may be carried forward to future tax years.
NYC STAR Credit	A refundable credit is allowed to all New York City residents as part of the State's STAR program. As of 2006, the amounts of STAR credit against NYC income tax were increased from $62.50 to $115 for singles and $125 to $230 for married couples.

In addition, credits are allowed for investment in production facilities, for investment in economic development zones, and for personal income taxes paid to other states. The Economic Development Zone Program for Qualified Empire Zone Enterprise (QEZEs) is discussed in more detail in the "Corporate Franchise Tax" section.

Significant Legislation

The significant statutory changes made to the State personal income tax since 1987 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1987		
Tax Reform and Reduction	In response to Federal tax reform, the State reduced the top rate from 9 percent on earned income and 13 percent on unearned income to 7 percent on all income and increased standard deduction amounts. The reductions were implemented over a five-year period.	1987 and after
Legislation Enacted in 1990-1994		
Tax Reduction Program	Annually delayed the final two years of the 1987 legislation that would have reduced to the top rate from 7.875 percent to 7.593575 percent and then to 6.85 percent.	1990-1994
Legislation Enacted in 1991		
Rate Recapture	Enacted the "supplemental tax" to recapture the value of marginal tax rates below the top rate.	1991 and after
Legislation Enacted in 1993		
Limited Liability Companies	Authorized the formation of LLCs and imposed a fee.	1994 and after
Legislation Enacted in 1994		
Earned Income Tax Credit	Enacted a new State credit equal to a percentage of the Federal credit. The rates were set at 7.5 percent of the Federal credit in 1994, 10 percent in 1995, 15 percent in 1996, and 20 percent in 1997 and thereafter.	1994 and after
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased the credit for taxpayers with adjusted gross incomes of less than $14,000 and made the credit refundable for residents.	1996 and after
Agricultural Property Tax Credit	Created a credit for school property tax that farmers pay on their farm property.	1997 and after
Legislation Enacted in 1997		
Child and Dependent Care Credit	Increased credit to 100 percent of the Federal credit for incomes up to $17,000, phasing down to 20 percent for incomes of $30,000 or more.	1998 and after
College Choice Tuition Savings Program	Authorized taxpayers to deduct from Federal AGI (FAGI) up to $5,000 ($10,000 for married couples filing jointly) of contributions made to family tuition accounts.	1998 and after

Subject	Description	Effective Date
Legislation Enacted in 1998		
Child and Dependent Care Credit	Increased the credit to 100 percent of the Federal credit for incomes up to $35,000, phasing down to 20 percent for incomes of $50,000 or more.	1999 and after
School Tax Relief Program (STAR)	Accelerated the fully effective senior citizens' school property tax exemption and began the deposit of a portion of personal income tax receipts into the STAR fund.	1998-99 school year
Alternative Fuels Vehicle Credit	Created a credit for vehicles powered by electricity and alternative fuels; clean fuel refueling property; and qualified hybrid vehicles.	Extended in 2004
Legislation Enacted in 1999		
Earned Income Tax Credit	Increased the EITC to 22.5 percent of the Federal credit in 2000 and 25 percent of the Federal credit for subsequent tax years.	2000 and after
Legislation Enacted in 2000		
Earned Income Tax Credit	Increased the EITC to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion first increased the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003 and after.	2002 and after
Child and Dependent Care Credit	Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equal to 20 percent for incomes greater than $65,000.	2000 and after
Long-Term Care Insurance Credit	Created a long-term care insurance credit equal to 10 percent of a taxpayer's long-term care insurance premium.	2002 and after
Marriage Penalty	Reduced the marriage penalty by increasing the standard deduction for taxpayers who are married filing jointly from $13,000 to $14,600 in three stages.	2001 and after
College Tuition Deduction/Credit	Authorized tax payers to deduct from FAGI up to $10,000 for attendance at a qualified higher education institution.	2001 and after
Petroleum Tank Credit	Created a two-year personal income tax credit of up to $500 for homeowners who remove and/or replace a residential fuel oil storage tank.	2001 and 2002
Legislation Enacted in 2003		
LLC Fees	Temporarily increased fees for 2003 and 2004.	2003 to 2004
Three-Year Personal Income Tax Surcharge	Created two new tax brackets applicable to taxpayers with incomes over $150,000 and over $500,000.	2003 to 2005
Legislation Enacted in 2004		
Long-Term Care Insurance Credit	Increased the credit for long-term care insurance from 10 percent to 20 percent of premium expense.	2004 and after
Military Pay Exemption	Exempted pay of members of the New York National Guard for services performed in New York as part of the "War on Terror."	2004 and after
Legislation Enacted in 2005		
Nursing Home Assessment Tax Credit	Created a refundable nursing home assessment tax credit for residents of a residential health care facility who directly paid any assessment.	2005 and after
Limited Liability Company Fees	Extended the higher fees to tax years 2005 and 2006.	2005 and 2006
Legislation Enacted in 2006		
STAR	Created a new STAR rebate paid in 2006 and increased NYC STAR credit amounts and indexed the enhanced STAR benefit for the 2006-07 school year. In the event that the enacted State budget does not appropriate moneys to pay STAR rebates authorized in 2006, a refundable personal income tax credit to lower school property taxes takes effect.	2006 and after
Empire State Child Credit	Created a refundable credit for children ages 4-16 which equals the greater of $100 times the number of children qualifying for Federal credit or 33 percent of the Federal credit.	2006 and after

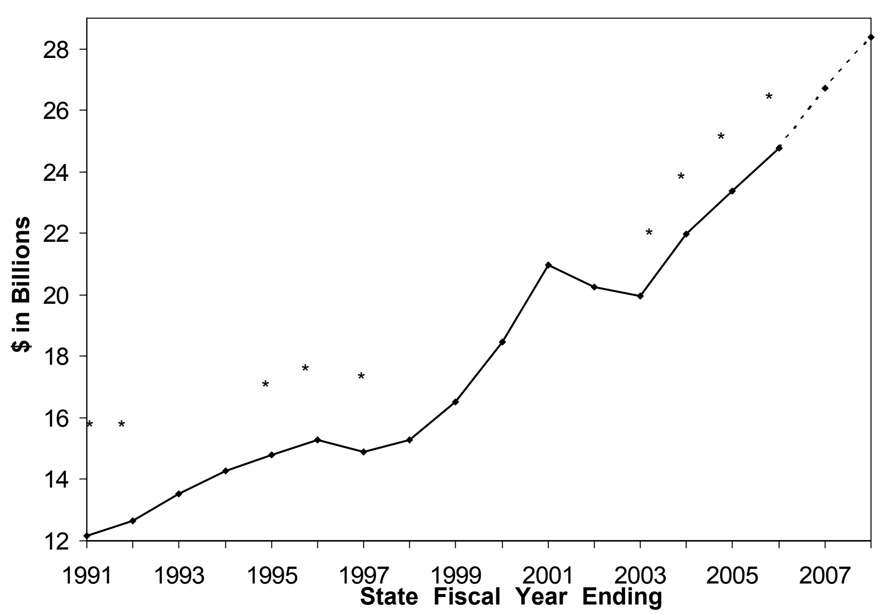
Subject	Description	Effective Date
Marriage Penalty	Increased the married filing joint standard deduction from $14,600 to $15,000 in order to eliminate the marriage penalty.	2006 and after
Earned Income Credit	Extended the credit to noncustodial parents who satisfy their child support obligations.	2006 and after; sunsets January 1, 2013

Withholding Changes

Various changes in tax rates, deductions and exemptions have been reflected in withholding tables as follows:

Effective Date	Feature	Changes
10/1/91	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $90,000 to account for the Federal limitation on itemized deductions and for the State tax table benefit recapture.
7/1/92	Rate Schedule	Changed for taxpayers with annual taxable wages in excess of $150,000 account for the State tax table benefit recapture.
7/1/95	Deduction Allowance Rate Schedule	Increased to $5,650 for single individuals, $6,150 for married couples. Lowered maximum rate to 7.59 percent and reduced the number of tax brackets.
4/1/96	Deduction Allowance Rate Schedule	Increased to $6,300 for single individuals, $6,800 for married couples. Lowered maximum rate to 7 percent and broadened the wage brackets to which the rates apply.
1/1/97	Deduction Allowance Rate Schedule	Increased to $6,975 for single individuals, $7,475 for married couples. Lowered maximum rate to 6.85 percent and broadened the wage brackets to which the rates apply.
7/1/03	Rate Schedule	Raised maximum rate to 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.

Personal Income Tax Withholding



The above graph shows the history of withholding collections beginning in 1990-91. The "*" symbol indicates the dates of withholding table changes.

Limited Liability Companies

A limited liability company (LLC) can be formed in New York by one or more persons by filing its articles of organization with the Secretary of State and paying an annual filing fee. The fee is reflected in the "returns" component of the personal income tax.

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. For 2006, the fee is $100 per member, the minimum fee is $500 and the maximum is $25,000. Filing fees for the tax year are due no later than January 30 of the following year. The following table shows historical LLC fees and estimated and projected fees for 2006-07 and as proposed for 2007-08.

To more clearly reflect a partnership and LLC's level of New York activity, legislation submitted with this Budget will restructure LLC fees so that they are based on New York source income. The legislation will reduce the minimum LLC fee from $325 to $100 while, in the aggregate, retaining the same level of revenue that the fee generated last year. The restructured fees would remain in effect for tax years 2007 through 2011, and then would be reduced.

Limited Liability Company Fees (thousands of dollars)

SFY	Amount
1995-96	764
1996-97	3,925
1997-98	7,677
1998-99	12,305
1999-2000	16,680
2000-01	21,267
2001-02	24,869
2002-03	26,517
2003-04	71,419
2004-05	64,104
2005-06	70,755
2006-07 Estimated	70,000
2007-08 Projected	70,000

Administration

Timing of the Payment of Refunds

The payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) has been managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State's General Fund. From fiscal years 2001 through 2005, refunds of $960 million were paid during January through March. In fiscal year 2006, the amount of refunds paid during this three-month period was increased to $1,512 million. The estimate and forecast of refunds paid during this three-month period in fiscal years 2007 and 2008 is projected to remain at $1.5 billion.

School Tax Relief Fund

Legislation enacted in 1998 created the School Tax Relief (STAR) program and the STAR Fund. The program provides residential homeowners with State-funded tax exemptions, rebates and personal income tax credits against school property taxes. In addition to school property tax exemptions, New York City (NYC) residents with relatively low homeownership rates are provided State-funded STAR credits and rate reductions against the NYC personal income tax. To reimburse school districts and NYC for the costs of the program, a portion of State personal income tax receipts are deposited to the STAR Fund. Pursuant to statute, payments are currently made to school districts in October, November and December and to New York City in September, December and June.

Revenue Bond Tax Fund

Legislation enacted in 2001 authorized the issuance of State Personal Income Tax Revenue Bonds and provided a source of payment for the debt service on those Bonds by earmarking a portion of personal income tax receipts to the newly created Revenue Bond Tax Fund (RBTF). Effective May 2002, such legislation directs the State Comptroller to deposit an amount equal to 25 percent of estimated monthly State personal income tax receipts (after payment of refunds and STAR deposits). Legislation submitted with this Budget will provide that deposits to the RBTF be calculated before the deposit of income tax receipts to the STAR Fund. Although this will decrease General Fund personal income tax receipts, RBTF deposits in excess of debt service requirements are transferred back to the General Fund.

Adjusted Gross Incomes, Estimated Tax Liability and Taxpayer Characteristics

New York State adjusted gross income, NYSAGI, is the income base that determines personal income tax liability. The following table lists the major components, their growth rates and their respective shares of NYSAGI (see also Economic Backdrop — New York State Adjusted Gross Income section).

TABLE 3
DISTRIBUTION OF THE MAJOR COMPONENTS OF
NEW YORK ADJUSTED GROSS INCOME (NYSAGI)
(millions of dollars)

Component of Income	2000	2001	2002	2003	2004	2005*	2006	2007	2008
	Actual					Estimate			
NYSAGI									
Amount	508,934	481,001	459,919	473,778	525,964	572,231	616,875	651,524	687,076
Percent Change	13.5	(5.5)	(4.4)	3.0	11.0	8.8	7.8	5.6	5.5
Wages									
Amount	368,177	376,158	368,720	373,313	397,431	417,662	448,921	474,900	499,043
Percent Change	12.0	2.2	(2.0)	1.2	6.5	5.1	7.5	5.8	5.1
Share of NYSAGI	72.3	78.2	80.2	78.8	75.6	73.0	72.8	72.9	72.6
Net Capital Gains									
Amount	62,302	29,450	20,398	28,455	51,196	64,039	70,895	75,325	79,664
Percent Change	28.9	(52.7)	(30.7)	39.5	79.9	25.1	10.7	6.2	5.8
Share of NYSAGI	12.2	6.1	4.4	6.0	9.7	11.2	11.5	11.6	11.6
Interest and Dividends									
Amount	30,290	26,506	20,465	20,417	22,485	29,442	31,818	33,558	35,627
Percent Change	19.7	(12.5)	(22.8)	(0.2)	10.1	30.9	8.1	5.5	6.2
Share of NYSAGI	6.0	5.5	4.4	4.3	4.3	5.1	5.2	5.2	5.2
Taxable Pension									
Amount	22,121	23,165	24,406	25,127	26,432	28,874	29,771	31,512	33,087
Percent Change	6.1	4.7	5.4	3.0	5.2	9.2	3.1	5.8	5.0
Share of NYSAGI	4.3	4.8	5.3	5.3	5.0	5.0	4.8	4.8	4.8
Net Business and Partnership Income									
Amount	44,004	45,191	46,763	48,157	53,686	60,222	64,925	68,232	73,067
Percent Change	4.7	2.7	3.5	3.0	11.5	12.2	7.8	5.1	7.1
Share of NYSAGI	8.6	9.4	10.2	10.2	10.2	10.5	10.5	10.5	10.6
All Other Incomes/ Adjustments /1									
Amount	(17,958)	(19,470)	(20,833)	(21,690)	(25,266)	(28,008)	(29,455)	(32,003)	(33,413)
Percent Change	6.7	8.4	7.0	4.1	16.5	10.9	5.2	8.7	4.4

* Estimates for 2005 are based on processing data, except for wages, which are based on QCEW data.

/1 includes alimony received, unemployment income, IRA income, and other incomes. This number is negative due to Federal and New York adjustments to income, which together reduce final NYSAGI.

Source: NYS Department of Taxation and Finance; DOB staff estimates.

The collapse of equity prices between 2000 and 2002 caused significant shifts in the share of capital gains realizations in NYSAGI. The capital gains share shrank from 12.2 percent in 2000 to 4.4 percent in 2002. As capital gains realizations dropped by two-thirds and NYSAGI experienced negative growth, the share of wages increased from 72.3 percent in 2000 to 80.2 percent in 2002. With the rebounding State economy and stronger equity and real estate markets, the share of capital gains is estimated to have climbed back up to 11.2 percent of NYSAGI in 2005, while the share of wages dropped down to 73.0 percent. Other components of NYSAGI are more stable or have shown consistent growth patterns over the years.

Changes in the timing of year-end bonus payments also affect the AGI growth rate. It is estimated that bonuses in the financial and insurance sector represent more than half of the total bonuses paid out each year. Beginning in 1994-95, the pattern of these bonus payments has shifted from approximately 40 percent paid at the end of the calendar year, and 60 percent paid early in the following year, to 30 percent and 70 percent, respectively.

As the State economy began to emerge from recession in September 2003, the resurgence in equity market growth and the associated return to profitability by the financial sector combined with a strong real estate market helped AGI increase by an estimated 11 percent for 2004 and 8.9 percent for 2005. Somewhat more moderate, but still fairly strong, growth of 7.8 percent is the forecast for 2006. With a cooling State economy expected for 2007 and 2008, AGI growth is anticipated to become more moderate, increasing by 5.6 percent in 2007 and 5.5 percent in 2008.

Table 4 presents data of AGI and liability over a seven-year span. In 1997, the State and national economies were still enjoying the long expansion that would end with a recession in 2001. The situation was decidedly different in 2004, when the State economy was in the early stages of its expansion. It should also be noted that there was a change in tax regime between the two years — while 1997 includes the final phase of a tax cut, 2004 was the second year under the tax surcharges enacted in 2003 that created two brackets and two new tax rates for filers with incomes over $150,000.

TABLE 4
PERCENT SHARES OF STATE AGI, WAGES, NONWAGE INCOME AND LIABILITY BY VARIOUS TAXPAYER CHARACTERISTICS, 1997 AND 2004
(Values for AGI, wages, nonwage income and liability in millions of dollars)

	1997					2004				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,194,718	383,166	285,919	97,247	16,950	8,929,346	533,539	397,431	136,108	25,766
percent change						9.0	39.2	39.0	40.0	52.0
Residents	7,486,494	338,664	249,988	88,676	14,495	8,063,721	464,065	343,184	120,881	21,565
percent share	91.4	88.4	87.4	91.2	85.5	90.3	87.0	86.4	88.8	83.7
percent change						7.7	37.0	37.3	36.3	48.8
Nonresidents	708,223	44,502	35,931	8,571	2,455	865,624	69,475	54,247	15,227	4,201
percent share	8.6	11.6	12.6	8.8	14.5	9.7	13.0	13.6	11.2	16.3
percent change						22.2	56.1	51.0	77.7	71.2
Married filing jointly	3,209,797	248,572	180,314	68,258	11,893	3,236,764	341,372	244,831	96,542	18,196
percent share	39.2	64.9	63.1	70.2	70.2	36.2	64.0	61.6	70.9	70.6
percent change						0.8	37.3	35.8	41.4	53.0
Head of Household	1,246,005	32,293	28,862	3,431	688	1,568,231	48,981	43,569	5,412	848
percent share	15.2	8.4	10.1	3.5	4.1	17.6	9.2	11.0	4.0	3.3
percent change						25.9	51.7	51.0	57.7	23.2
Single Filers	3,738,915	102,301	76,742	25,559	4,368	4,124,351	143,186	109,032	34,154	6,722
percent share	45.6	26.7	26.8	26.3	25.8	46.2	26.8	27.4	25.1	26.1
percent change						10.3	40.0	42.1	33.6	53.9
Itemized Deduction	1,635,655	182,549	121,411	61,138	9,445	2,188,651	294,204	199,220	94,983	16,388
percent share	20.0	47.6	42.5	62.9	55.7	24.5	55.1	50.1	69.8	63.6
percent change						33.8	61.2	64.1	55.4	73.5
Standard Deduction	6,559,062	200,617	164,508	36,110	7,504	6,738,106	239,241	198,129	41,112	9,373
percent share	80.0	52.4	57.5	37.1	44.3	75.5	44.8	49.9	30.2	36.4
percent change						2.7	19.3	20.4	13.9	24.9

Note: NYSAGI in this table is different from that in Table 5 due to different treatment of negative NYSAGI.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Note that while the share of returns filed by nonresidents increased slightly over this period (from 8.6 percent to 9.7 percent), their share of tax liability increased from 14.5 percent to 16.3 percent. Due in part to the effect of the 2003 Tax Law change, resident liability rose by 48.8 percent from 1997 to 2004, while nonresident liability increased 71.2 percent. This was largely due to the nonwage components of income, including dividends, interest and especially capital gains. Resident and nonresident wages and salaries income gains diverged over this period, perhaps reflecting the State's sluggish recovery from recession and the 9/11 terrorist attacks. While resident wages and salaries rose 37.3 percent from 1997 to 2004, nonresident wages increased 51 percent. At the same time, resident nonwage income grew 36.3 percent, while nonresident nonwage income rose 77.7 percent.

With respect to filing status, an interesting development is the slow decline in the share of returns from taxpayers filing as "married filing jointly." These taxpayers increased by only 0.8 percent from 1997 to 2004, leading to a decline in the share of taxpayers claiming this status from 39.2 percent to 36.2 percent. Meanwhile, returns filed as "head of household" increased 25.9 percent over the period, while filers claiming single status increased 10.3 percent. Married filing jointly taxpayers account for the bulk of nonwage income, with a share of 70.9 percent over the period, with single filers accounting for 25.1 percent. Married filing jointly taxpayers account for the bulk of nonwage income, with a share of about 72 percent over the period, with single filers accounting for about 25 percent. Married taxpayers account for about 70 percent of the liability in both years despite the decline in the share of married taxpayers, while single filers' share is about 26 percent in both years.

Taxpayers who itemized their deductions made up 20 percent of taxpayers in 1997, rising to 24.5 percent by 2004. Largely reflecting the influence of the economic boom of the 1990s on incomes and increases in local property taxes and other deduction amounts, the share of liability swung strongly more toward those using the itemized deduction. In 1997, standard deduction returns accounted for 80 percent of returns and 44.3 percent of liability, while itemized returns accounted for the remainder of returns and 55.7 percent of liability. By 2004, itemizers made up 63.6 percent of liability while standard deduction takers' share of liability had fallen to 36.4 percent.

Recent Liability History

As already noted, New York State was in recession during 2001 and 2002, before rebounding to a period of above average growth in taxable incomes. The economic difficulties the State experienced and the subsequent recovery are reflected in the data for NYSAGI and tax liability. Based on the approximately 8.9 million returns reflected in the annual study file of personal income tax returns prepared by the New York State Department of Taxation and Finance, total liability was about $25.8 billion in 2004, up from $22.4 billion in 2003 (see Table 5). Additional PIT liability worth approximately $1.2 billion in 2004 was received from fiduciary returns, late-filed returns and other transactions not included in the annual study file.

TABLE 5
LIABILITY AND EFFECTIVE TAX RATES*
Current Law
1995 - 2008
(millions of dollars)

	NYSAGI		Liability		Effective
	Amount	Growth Rate	Amount	Growth Rate	Tax Rate (percent)
1995	317,825	10.4	16,011	5.1	5.04
1996	344,569	8.4	16,319	1.9	4.74
1997	379,179	10.0	16,950	3.9	4.47
1998	413,128	9.0	18,986	12.0	4.60
1999	448,531	8.6	20,977	10.5	4.68
2000	508,934	13.5	24,494	16.8	4.81
2001	481,001	(5.5)	22,406	(8.5)	4.66
2002	459,919	(4.4)	20,729	(7.5)	4.51
2003	473,778	3.0	22,456	8.3	4.74
2004	525,964	11.0	25,769	14.8	4.90
2005**	572,231	8.8	29,176	13.2	5.10
2006**	616,875	7.8	29,584	1.4	4.80
2007**	651,524	5.6	31,866	7.7	4.89
2008**	687,076	5.5	34,268	7.5	4.99

* Liability divided by AGI.
** Estimate/Forecast
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Given $526 billion in NYSAGI in 2004, the average effective tax rate was 4.9 percent (based on study file liability), up from 4.5 percent in 2002. Between 2000 and 2002, AGI declined 9.6 percent, while liability declined 15.4 percent. The greater decline in liability can largely be attributed to two years of strong declines in net capital gains income, which fell 52.7 percent in 2001 and fell by 30.7 percent in 2002 (see Table 3). Capital gains income tends to fall heavily on taxpayers in the highest tax bracket. Dividend and interest income also experienced substantial declines in 2001 and 2002. Between 2002 and 2004, the effective tax rate increased as liability growth of 30.1 percent handily outpaced NYSAGI growth of 14.4 percent. Recovering financial markets and an exceptionally strong real estate market resulted in capital gains income growth of 130.4 percent between 2002 and 2004. More broadly distributed wages and salaries experienced much more modest growth of 7.8 percent over the same two years, with an estimated 13.8 percent growth in bonuses. Of course, in addition to the rebound in NYSAGI two new, temporary tax rates of over seven percent were imposed on high-NYSAGI, taxpayers in 2004 by legislation passed in 2003.

Processing information for 2005 suggests strong growth in NYSAGI of 8.9 percent and even stronger liability growth of 13.2 percent, producing an average effective tax rate of 5.1 percent. Continued strong performances in the real estate and financial markets resulted in 25.1 percent growth in net capital gains income. Dividend and interest income experienced even stronger growth of 30.9 percent and net business income showed respectable growth of 12.2 percent.

Liability Forecast Summary: 2006-2008

The Division of the Budget predicts that the cooling of the State economy will continue into 2007 and 2008 without leading to a recession. Consequently, the Division of the Budget estimates more moderate growth in NYSAGI and its components in 2006 and projects further declines in growth rates for 2007 and 2008. The Division of the Budget forecasts NYSAGI growth of 7.8 for percent in 2006, followed by growth of 5.6 percent in 2007 and 5.5 percent in 2008. Liability growth under current law is expected to be much lower, coming in at 1.4 percent for 2006, largely as a result of the removal of the surcharge. Liability increases of 7.7 percent and 7.5 percent are projected for 2007 and 2008, respectively. For 2006, this implies a liability forecast of $29.6 billion and, for 2007, a liability forecast of $31.9 billion. For the 2008 tax year, liability is estimated to be about $34.3 billion (see Total Liability graph).

As discussed in The Major Components of NYSAGI in the section "New York State Adjusted Gross Income" capital gains are estimated to continue to grow but at a slower rate of 10.7 percent in 2006 due to a strong equity market combined with a basically flat real estate market. The housing market is expected to continue to weaken, leading to predicted capital gains income growth of 6.2 percent in 2007, followed by 5.8 percent growth in 2008.

While the State economy started cooling in 2006, employment and wages experienced strong growth. Wage growth is estimated to be high in 2006 at 7.5 percent growth but is expected to slow down to 5.8 percent in 2007 and 5.1 percent in 2008. Other income components are all predicted to see slower growth than in 2005.

In assessing anticipated trends in liability, it should be noted once again that several changes in the State tax regime take place for the 2006 tax year. The temporary surcharge enacted by the Legislature in May 2003 expired at the end of 2005. In addition, the standard deduction for married filers was increased for the 2006 tax year — to $15,000 (from $14,600) for joint filers, and to $7,500 (from $6,500) for those filing separately. Also, the Empire State Child Credit for eligible children aged 4-16 will be available for the 2006 tax year.

Besides these State Tax Law changes, a change at the Federal level will also impact New York State tax liability. For the 2006 tax year, the Federal limitation on itemized deductions will be reduced by one-third. This reduction in the limitation will allow high-income taxpayers to reduce their liability by claiming a greater value of itemized deductions. These State and Federal law changes must be borne in mind in evaluating the liability forecasts in this period.

TABLE 6
TEMPORARY INCOME TAX SURCHARGE
TAX YEAR AND FISCAL YEAR ESTIMATES - CURRENT LAW

Tax Year	2003-04	2004-05	2005-06	2006-07	Liability Totals
2003 Withholding	632	0	0	0	
Estimated Tax	326	0	0	0	
Settlement	0	324	0	0	
Subtotal	958	324	0	0	1,282
2004 Withholding	204	550	0	0	
Estimated Tax	0	431	0	0	
Settlement	0	0	366	0	
Subtotal	204	981	366	0	1,550
2005 Withholding	0	230	632	0	
Estimated Tax	0	0	484	0	
Settlement	0	0	0	435	
Subtotal	**0**	**230**	**1,116**	**435**	**1,782**
SFY Total	**1,162**	**1,535**	**1,482**	**435**	**4,614**

Impact of Recent Tax Changes on Liability

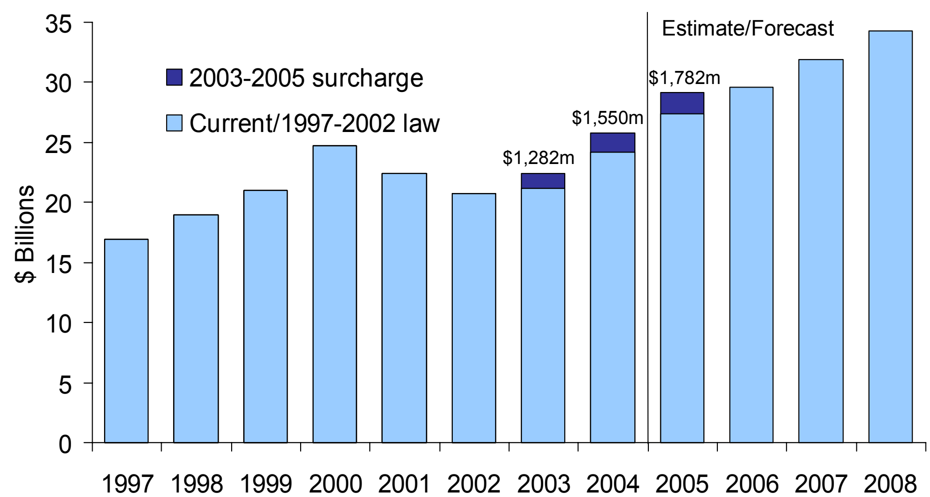
The 1997 tax year was the final phase of the three-year personal income tax cut enacted in June 1995. This legislation raised the standard deduction and reduced the tax rate imposed on taxable income. Legislation enacted since 1995 increased the child and dependent care credit and the earned income tax credit. Other new credits and the New York State College Choice Tuition Savings Program were also created. While these tax reductions have resulted in considerable savings for New York State taxpayers, they have also reduced tax liability. The State and national recessions earlier in the decade further eroded personal income tax liability. Liability for 2002 (based on the study file) was estimated at \$20.7 billion, representing a 7.5 percent decline compared to 2001. The effective tax rate was estimated to have been 4.51 percent in 2002. Without the tax cuts enacted in 1995, it is estimated that 2002 liability would have been approximately \$25.9 billion, or about \$5.2 billion higher than under then-existing law.

On the other hand, beginning with the 2003 tax year, two temporary new brackets with higher tax rates were imposed on high income New York State taxpayers. While the higher of the two temporary rates remained at 7.7 percent for all three years, the lower rate declined in steps: from 7.5 percent in 2003, to 7.375 percent in 2004, to 7.25 percent in 2005. Table 6 summarizes the impact of the surcharge for both tax liability and associated collections. Without the surcharge, 2003 liability would have been \$21.2 billion, rather than the actual \$22.5 billion for the year. Liability is estimated at \$25.8 billion and \$29.2 billion for 2004 and 2005, respectively, or about \$1.55 billion and \$1.78 billion higher than under the law prevailing in 2002 (see Total Liability graph).

As noted, the expiration of the 2003-2005 surcharge results in a return to the rates prevailing in 2002 for the 2006 tax year. The increased standard deductions for married filers and the new Empire State Child Credit will also lower liability from levels that would have existed had the Tax Law returned exactly to where it had been in 2002. Finally, as noted above, the Federal limitation on itemized deductions will be reduced by one-third for the 2006 and 2007 tax years, before declining by another third for the 2008 and 2009 tax years. Because the Federal itemized deductions are the basis for much of the State's itemized deductions, the reduction in the limitation will allow taxpayers to also lower their State liability by retaining more of their itemized deductions.

The combination of the return to the 2002 tax rates and brackets, the increased standard deduction for married taxpayers, the Empire State Child Credit, and the reduction in the Federal itemized deduction limitation lowers 2006 liability by $779 million from the level that would be attained if the only change for the 2006 tax year were the return to the 2002 rates and brackets (in other words, absent those changes liability would have been $30.4 billion in 2006). For the 2007 tax year, liability is projected to be $811 million lower due to the 2006 changes (under only reversion to the 2002 rates, it would have been $32.7 billion), and for the 2008 tax year, it is projected to be $799 million lower (or $35.1 billion under 2002 constant law).

Total Liability 1997- 2008



Note: Values above bars for 2003-2005 indicate the amount of additional liability due to the surcharges for those tax years. The surcharge expired on January 1, 2006. "Current law" for 2006-2008 includes changes in State and Federal tax law that are effective with the 2006 tax year and beyond.
Source: New York State Department of Taxation and Finance; DOB staff estimates.

As can be seen in Table 5, the 2003 law surcharge resulted in a sudden increase in the effective tax rate, from 4.51 percent in 2002 to 4.74 percent in 2003. Improving economic conditions tilted toward high-income taxpayers are mainly behind the increase in the effective rate in 2004 and 2005, while the return to the 2002 prevailing tax rates and the law changes outlined above that are effective with the 2006 tax year lead to a sharp estimated decline in the effective rate to 4.80 percent in 2006 from the 5.10 percent rate of 2005.

Not surprisingly, the temporary higher tax rates in force during 2003-2005 increased the share of liability accounted for by high-income taxpayers. Table 8 shows the share of the top one percent of taxpayers under the 1995-2002 law and 2006 law changes compared to 2003-2005 law. In 2003, for example, the top one percent accounted for 33.8 percent of State liability under the 1995-2002 law, but 36.0 percent of liability under the 2003 law. By the 2005 tax year, the top one percent is forecast to have 40.3 percent of liability, in contrast to a share estimated at 37.8 under the 1995-2002 law. When the surcharges are removed, the Division estimates that the top one percent of taxpayers will account for about 37 percent of total State personal income tax liability.

Risks to the Liability Forecast

Liability estimates are subject to significant risks from both unanticipated shifts in economic conditions and changes in taxpayer behavior. For example, slower than expected economic growth would put downward pressure on tax liability, holding other factors constant. The stock market and the financial services industry, more specifically, may do much better or much worse than envisioned, with consequent positive or negative impacts on State tax liability. As discussed in "New York State Adjusted Gross Income" under the "Economic Backdrop" section, capital gains always exhibit a high degree of volatility and are difficult to forecast with precision.

TABLE 7
PERCENT DISTRIBUTION OF RETURNS, LIABILITY AND AGI BY INCOME GROUPS

	2004 (Actual)			2007 (Forecast)		
Income Group	Returns	Liability	AGI	Returns	Liability	AGI
0 - $50,000	69.9	7.2	21.9	68.3	5.5	17.8
$50,000 - $100,000	19.2	19.7	22.6	17.5	16.2	18.0
$100,000 - $200,000	7.7	19.1	17.2	9.6	20.2	18.2
$200,000 - $1,000,000	2.8	23.7	17.3	4.1	25.5	20.5
$1,000,000 and above	0.4	30.3	21.0	0.5	32.6	25.4

Source: NYS Department of Taxation and Finance; DOB Staff estimates.

The concentration of a significant portion of liability among a relatively small number of taxpayers represents a significant risk to the income tax forecast. As exhibited in Table 7, the shares of income tax liability and income (as measured by NYSAGI) for high income taxpayers are substantial. The shares for 2004 are based on the personal income tax study file created by the New York State Department of Taxation and Finance, while the 2007 shares are based on forecasts by the Division of the Budget. The table indicates that while there is a modest shift over the period toward high-income taxpayers in the number of returns, the shift in AGI and liability toward high-income in taxpayers is much greater. Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. This means changes in the economy that affect a small number of taxpayers in the high-income group can have disproportionate effects on State tax revenues.

TABLE 8
CHANGES IN THE SHARE OF LIABILITY ORIGINATING WITH THE TOP ONE PERCENT OF NYS TAXPAYERS

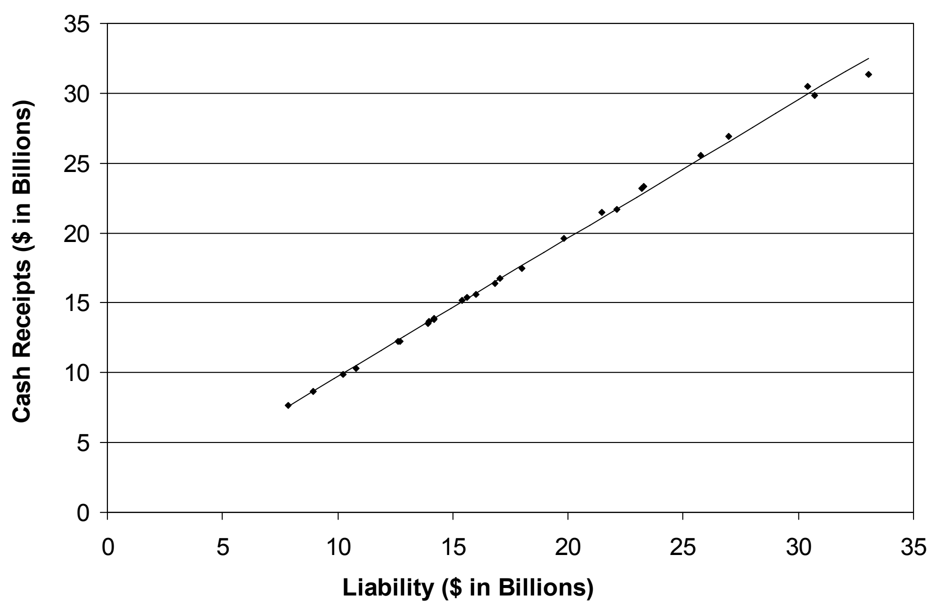
	1995-2002, 2006 Tax Law			2003-2005 Surcharges		
Year	Liability, top 1 Percent (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1 (Percent)	Liability, top 1 Percent (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1 (Percent)
1995	4,243	16,011	26.5	--	--	--
1996	4,935	16,319	30.2	--	--	--
1997	5,705	16,950	33.7	--	--	--
1998	6,654	18,986	35.0	--	--	--
1999	7,462	20,977	35.6	--	--	--
2000	9,644	24,494	39.0	--	--	--
2001	7,864	22,406	35.1	--	--	--
2002	6,681	20,729	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36.0
2004	8,487	24,218	35.0	9,607	25,769	37.3
2005*	10,062	27,395	36.7	11,388	29,176	39.0
2006*	11,057	29,584	37.4	--	--	--
2007*	11,816	31,866	37.1	--	--	--
2008*	12,579	34,268	36.7	--	--	--

* Estimated
Note: The 2003-2005 surcharges expired at the end of the 2005 tax year.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

TAX LIABILITY AND CASH PAYMENTS

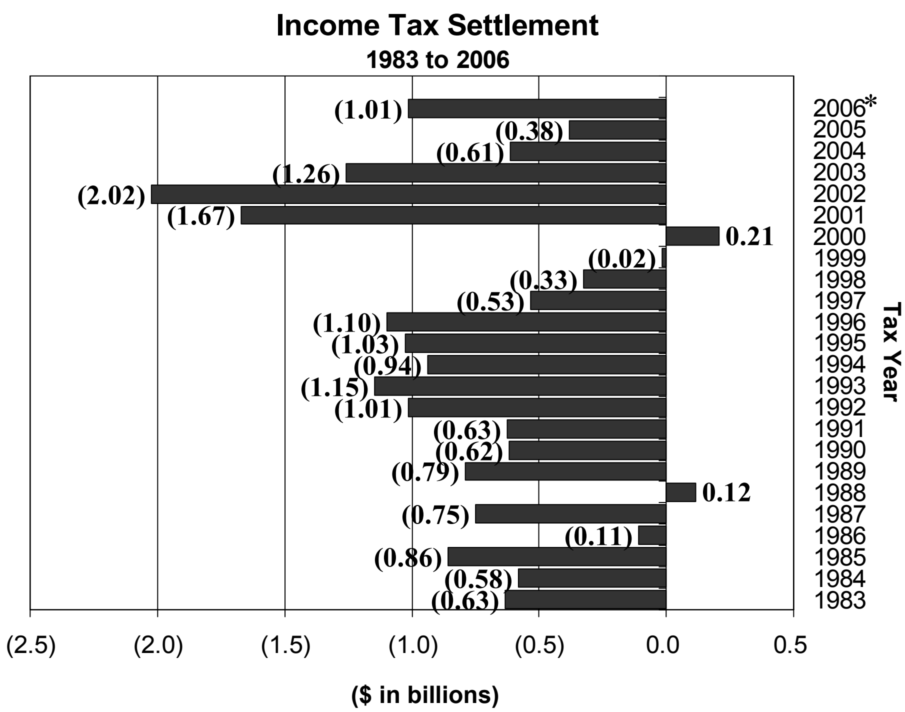
Although significant risks necessarily remain in any estimates of income tax liability, estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below.

PIT Liability vs. PIT Cash Receipts
1982 to 2007 Tax Years



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments — withholding tax and quarterly estimated tax payments — tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2006 tax year will be received before the end of the 2006-07 State fiscal year. Settlement payments — those payments received when taxpayers file final returns for a tax year — tend to be received in the next State fiscal year after the end of a tax year. Thus, settlement payments for the 2006 tax year will be received largely in the 2007-08 fiscal year. Some settlement payments (known as prior-year payments) are received later and can occur in a subsequent fiscal year. Such payments for the 2006 tax year can be received in fiscal year 2007-08 or a later fiscal year.

As is evident in the graph below showing net settlement payments for the 1983 through 2006 tax years, the amount of liability received in the settlement can vary widely from year to year. In most years, the net settlement has been very negative, with State settlement outlays (such as refunds and offsets) far exceeding taxpayer settlement payments (such as those sent with returns and extension requests). There have been some important exceptions to this pattern — most notably during times of tax reform (in 1986 and 1988), in times of rapid economic growth, and during periods with large increases in non-wage income.



* Estimate
Note: The settlement comprises extension payments plus final return payments minus refunds and the State-city offset.

Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, the settlement became much less negative than it traditionally had been. This pattern, accompanying the strongly growing economy, resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with filed returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted by the Legislature in 2003, the net settlement payout by the State was negative but below $600 million for the 2004 tax year, and only slightly negative for tax year 2005. However, the 2006 estimated settlement is a negative $1.01 billion, due to the combination of uncertainty about taxpayers reaction to the expiration of the surcharge, refund claims for the new child credit, and other tax reductions reflected in higher refunds.

For a more detailed discussion of the methods and models used to develop estimates and projections for the personal income tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are approximately $23.5 billion, an increase of $2.15 billion, or approximately 10 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $34,434 million, an increase of $3,621 million, or 11.8 percent above last year. The temporary surcharge, although it expired on January 1, 2006, is estimated to increase 2006-07 collections by $435 million, due to settlements on tax year 2005 returns filed after March 2006.

The current forecast assumes that estimated payments on 2006 liability will be 13.3 percent higher than comparable payments on 2005 liability. Non-wage incomes have risen substantially due to strong stock and real estate market performance, more than offsetting the effect of the expiration of the surcharge after 2005.

Compared with the same period a year ago, withholding collections increased 4.5 percent through the first nine months of the fiscal year. The increase in withholding reflects the expiration of the surcharge and a continually growing economy.

Table 9 shows the components of the personal income tax from 2003-04 through 2007-08.

Table 9 FISCAL YEAR COLLECTION COMPONENTS ALL FUNDS (millions of dollars)					
	2003-04 (Actual)	2004-05 (Actual)	2005-06 (Actual)	2006-07 (Estimated)	2007-08 (Projected)
Receipts					
Withholding	21,986	23,375	24,761	26,710	28,376
Estimated Payments	5,159	7,062	9,158	10,352	11,147
Current Year	4,325	5,526	6,684	7,572	8,272
Prior Year*	834	1,536	2,474	2,780	2,875
Final Returns	1,313	1,629	1,849	2,078	2,156
Current Year	164	171	199	171	175
Prior Year*	1,149	1,458	1,650	1,907	1,981
Delinquent Collections	631	702	776	824	909
Gross Receipts	29,089	32,768	36,544	39,964	42,588
Refunds					
Prior Year*	2,780	3,107	3,481	3,227	4,035
Previous Years	268	243	272	270	270
Current Year*	960	960	1,512	1,500	1500
State-City Offset*	288	357	466	533	509
Total Refunds	4,296	4,668	5,731	5,530	6,314
Net Receipts	22,648	28,100	30,813	34,434	36,274

* These components, collectively, are know n as the "settlement" on the prior year's tax liability.

An added risk to the estimate of 2006-07 receipts results from the timing of bonus payments paid by financial services companies. A large portion of these bonuses is paid in the first quarter of the calendar year. Consequently, complete information about such payments was not available when the 2006-07 estimates were constructed.

Total refunds are expected to decline by $201 million (3.5 percent) from 2006-07. This is mainly due to a $254 million decrease in prior-year refunds, which in turn is the result of the increase in the 2005-06 current refund cap from $960 million to $1,512 million. Because a higher amount of refunds fell into the cap, refunds paid after March 31 declined.

2007-08 Projections

All Funds receipts are projected to be $36,274 million, an increase of $1,840 million, or 5.3 percent above 2006-07. This includes $36 million from the legislative proposals to restructure LLC Fees and continue tax shelter reporting.

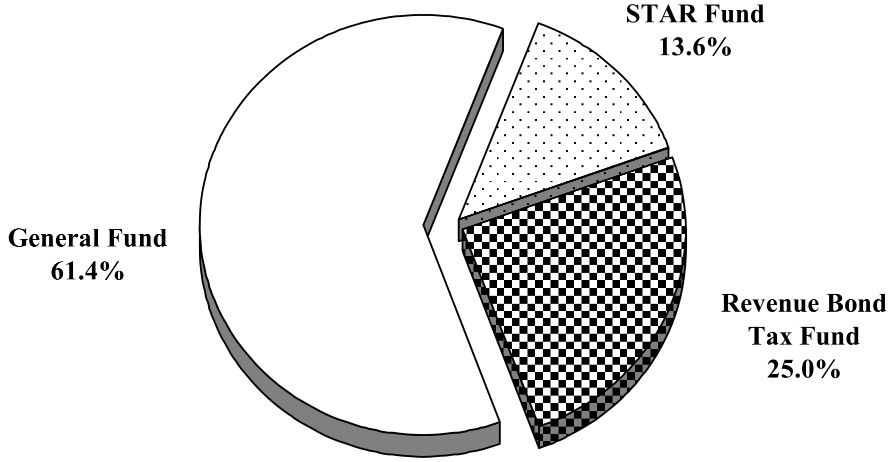
Withholding receipts continue to reflect solid growth in wages and are projected to rise by 6.2 percent. The other major component of collections, estimated payments on 2007 income, is projected to increase by 9.2 percent. This is consistent with a slowdown in the growth of non-wage income.

Extension and final payments related to 2006 returns are expected to increase by $165 million (3.5 percent) from 2005 returns. The decline in the growth of these payments is primarily due to expiration of the temporary surcharge after 2005.

Total refunds for 2007-08 are projected to increase by $784 million (14.2 percent). Most of this increase is due to higher prior-year refunds, which in turn reflect the new child credit and other tax reduction legislation effective for the 2006 tax year that taxpayers will receive as higher refunds beginning in 2007-08. While legislation proposed with this Budget will also affect the level of refunds, the impact will not occur until 2008-09 when taxpayers file their 2007 tax year returns.

General Fund

Fund Shares of Net Receipts 2007-08



Under current law, General Fund net personal income tax receipts are estimated at $22,828 million in 2006-07 and are projected at $24,375 million in 2007-08, a 6.8 percent increase from 2006-07. Under proposed law, General Fund net personal income tax receipts are projected at $22,258 million in 2007-08, a 2.5 percent decrease. The decrease results from proposed legislation to calculate the deposits to RBTF based on 25 percent of PIT receipts as opposed to 25 percent of PIT receipts after STAR Fund deposits.

Other Funds

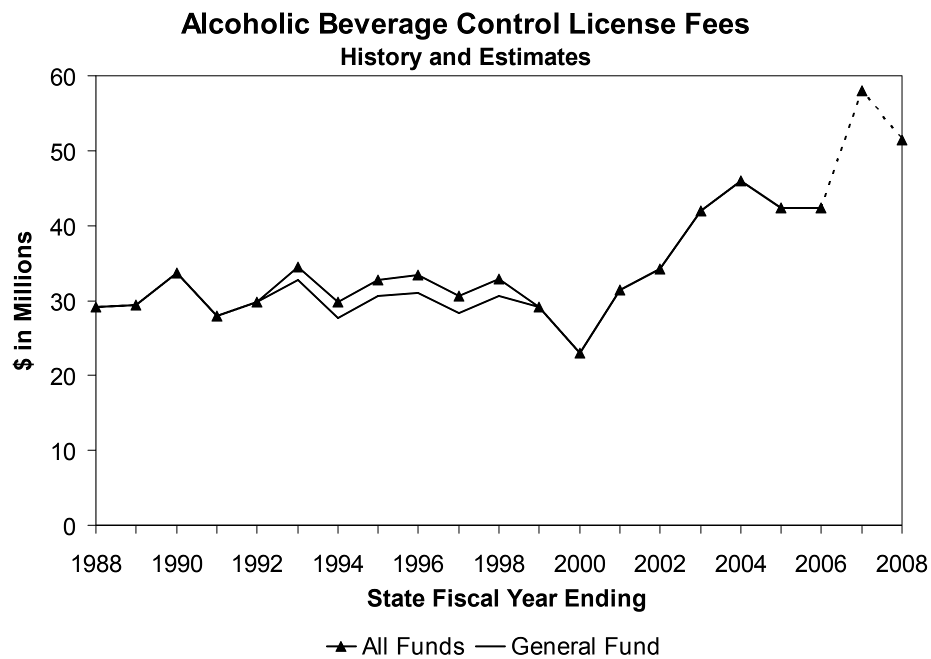
In 2006-07 and 2007-08, respectively, dedicated personal income tax receipts of $3,996 million and $4,948 million will be deposited into the School Tax Relief Fund. The 2007-08 amount reflects the proposed legislation to expand the STAR Program.

Personal income tax receipts of $7,610 million and $9,068 million will be deposited in the RBTF in 2006-07 and 2007-08, respectively. The increase in RBTF in 2007-08 is attributable to the legislation described above that will change the calculation of deposits to the RBTF. However, the unused RBTF revenues are transferred back to the General Fund, a transfer that would have no net impact on the Financial Plan.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	42.3	58.0	15.7	37.1	51.5	(6.5)	(11.2)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	42.3	58.0	15.7	37.1	51.5	(6.5)	(11.2)

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE CONTROL LICENSE FEES BY FUND (thousands of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds	All Funds Receipts
1997-98	33,162	2,629	30,533	2,387	32,920
1998-99	32,282	3,190	29,092	0	29,092
1999-2000	25,566	2,615	22,951	0	22,951
2000-01	33,140	1,787	31,353	0	31,353
2001-02	35,495	1,251	34,244	0	34,244
2002-03	43,124	1,183	41,941	0	41,941
2003-04	47,187	1,796	45,391	0	45,391
2004-05	44,543	2,179	42,364	0	42,364
2005-06	44,934	2,608	42,326	0	42,326
Estimated					
2006-07	60,500	2,500	58,000	0	58,000
2007-08	54,000	2,500	51,500	0	51,500

ALCOHOLIC CONTROL BEVERAGE LICENSE FEES

PROPOSED LEGISLATION

No new legislation for these fees is proposed with this Budget.

DESCRIPTION

Fee Base and Rate

New York State distillers, brewers, wholesalers, retailers, and others who sell alcoholic beverages are required by law to be licensed by the State Liquor Authority. License fees vary depending on the type and location of the establishment or premises operated, as well as the class of beverage for which the license is issued.

Administration

Fees are paid directly to the State Liquor Authority on or before the expiration date of the current one-, two-, or three-year license, or with the application for a new license.

NUMBER OF LICENSES BY CATEGORY
(calendar year)

		Bars and Restaurants						
	Liquor Stores	Beer, Wine and Liquor	Beer and Wine	Beer Only	Subtotal	Grocery Stores	Wholesale	Total
1997	2,621	19,708	3,490	1,843	25,041	19,462	1,125	48,249
1998	2,596	19,853	3,712	1,950	25,515	19,417	1,142	48,670
1999	2,560	20,325	3,640	1,883	25,848	19,202	1,031	48,587
2000	2,491	20,694	3,748	1,877	26,319	19,167	1,201	49,178
2001	2,482	20,545	3,991	1,942	26,478	18,994	1,181	49,135
2002	2,494	21,192	4,256	2,066	27,514	19,051	1,202	50,261
2003	2,501	19,666	4,470	1,977	26,113	18,726	1,233	48,573
2004	2,525	19,772	4,606	1,984	26,362	18,496	1,254	48,637
2005	2,558	19,686	4,825	1,984	26,495	18,270	1,294	48,617
2006	2,628	19,497	4,929	1,964	26,390	18,878	1,640	49,536

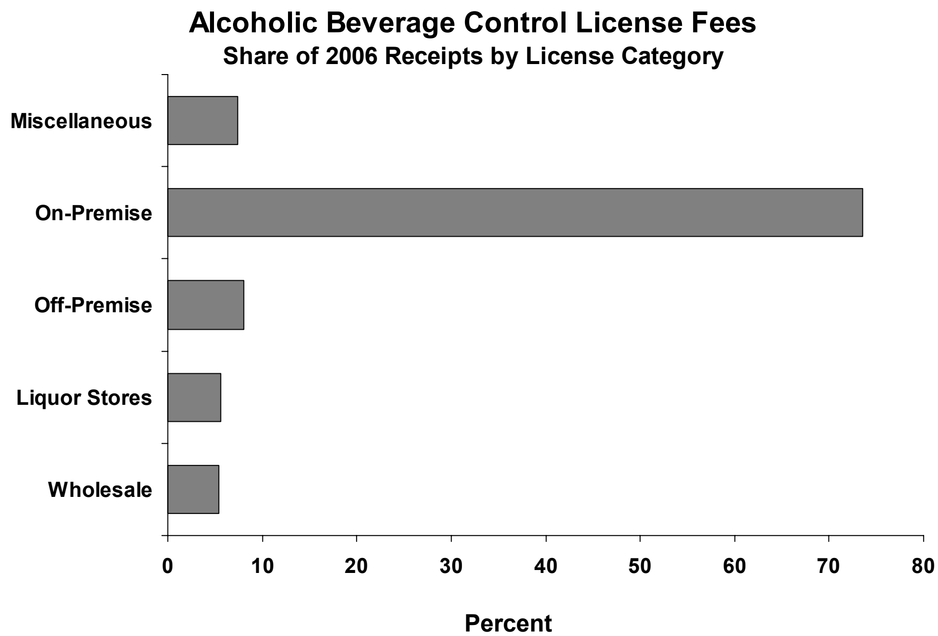
Significant Legislation

The significant statutory changes for this revenue source are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1997		
License Renewal	Changed the required purchase of a triennial license to allow licensees to continue to purchase a triennial license or optionally purchase an annual or biennial license at a prorated cost.	December 1, 1998
Legislation Enacted in 2002		
Fee Increases	Increased license fees for most licensees by 28 percent.	September 1, 2002
Legislation Enacted in 2003		
Open Sundays	Allowed liquor stores to have an option of closing a day other than Sunday.	May 15, 2003
Legislation Enacted in 2004		
Seven Day Sales	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		
Direct Shipments	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005

FEE LIABILITY

The most significant source of revenue is the licensing of about 26,400 bars and restaurants that offer on-premise consumption. The majority of State-licensed bars and restaurants (about 19,500 in 2006) are authorized to sell beer, wine, and liquor. Approximately 4,900 licensees are permitted to sell only beer and wine. The remaining 2,000 licensees in 2006 sold only beer. In addition, there were about 18,900 grocery stores licensed to sell beer for off-premise consumption and 1,600 alcoholic beverage wholesalers. Finally, the miscellaneous licenses (not shown above), which account for roughly 7.8 percent of revenue, are made up of specialty and seasonal licenses (for example: veterans' clubs and seasonal tour boats).



TAX LIABILITY

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage control license fees, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $45.4 million, an increase of $12.3 million, or 37.1 percent above the comparable period in the prior fiscal year. This increase is attributed to the one-time deposit of internet license renewal receipts.

All Funds receipts for 2006-07 are estimated to be $58.0 million, an increase of $15.7 million, or 37.1 percent above last year. This increase is attributed to the one-time deposit of internet license renewal receipts.

2007-08 Projections

All Funds receipts are projected to be $51.5 million, a decrease of $6.5 million, or 11.2 percent below 2006-07. This decrease is attributed to the loss of one-time internet license renewal receipts from 2006-07.

General Fund

Effective April 1, 1998, all proceeds from alcoholic beverage control license fees are deposited in the General Fund.

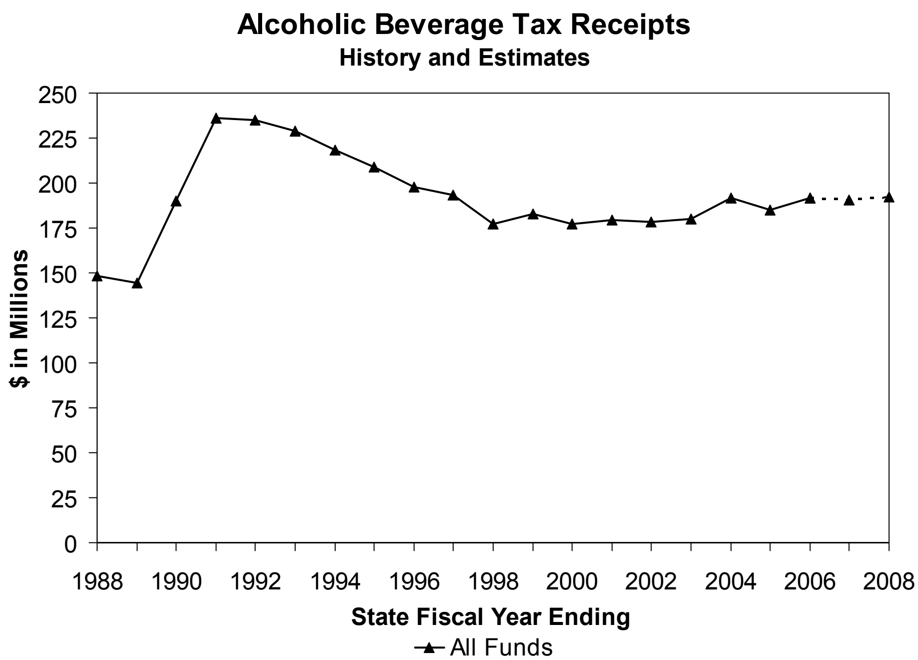
Other Funds

From 1992-93 through 1997-98, a portion of license fee receipts was deposited in the Alcoholic Beverage Control Enhancement Account. Revenues deposited into the account were used to support efforts to improve compliance with licensing regulations and expedite license processing. Beginning in 1998-99, this special revenue fund was eliminated, and since that time all licensing fees have been deposited in the General Fund.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	191.7	195.9	4.2	2.2	200.2	4.3	2.2
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	191.7	195.9	4.2	2.2	200.2	4.3	2.2

Note: Totals may differ due to rounding.



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
1997-98	177,124	115	177,009	177,009
1998-99	183,087	316	182,771	182,771
1999-2000	177,093	55	177,038	177,038
2000-01	179,407	67	179,340	179,340
2001-02	178,146	1	178,145	178,145
2002-03	180,686	931	179,755	179,755
2003-04	191,380	23	191,357	191,357
2004-05	184,955	68	184,887	184,887
2005-06	191,696	22	191,674	191,674
Current Law				
2006-07	194,000	100	193,900	193,900
2007-08	198,300	100	198,200	198,200
Proposed Law				
2006-07	196,000	100	195,900	195,900
2007-08	200,300	100	200,200	200,200

ALCOHOLIC BEVERAGE TAXES

PROPOSED LEGISLATION

Legislation submitted with this Budget would extend, for two years, various Alcohol Beverage Tax enforcement provisions. These provisions would preserve $2 million, which is currently included in the Financial Plan.

DESCRIPTION

Tax Base and Rate

New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages.

STATE TAX RATES (dollars per unit of measure)		
Liquor over 24 percent alcohol	1.70	per liter
All other liquor with more than 2 percent alcohol	0.67	per liter
Liquor with not more than 2 percent alcohol	0.01	per liter
Natural sparkling wine	0.05	per liter
Artificially carbonated sparkling wine	0.05	per liter
Still wine	0.05	per liter
Beer with 0.5 percent or more alcohol	0.11	per gallon
Cider with more than 3.2 percent alcohol	0.01	per liter

Administration

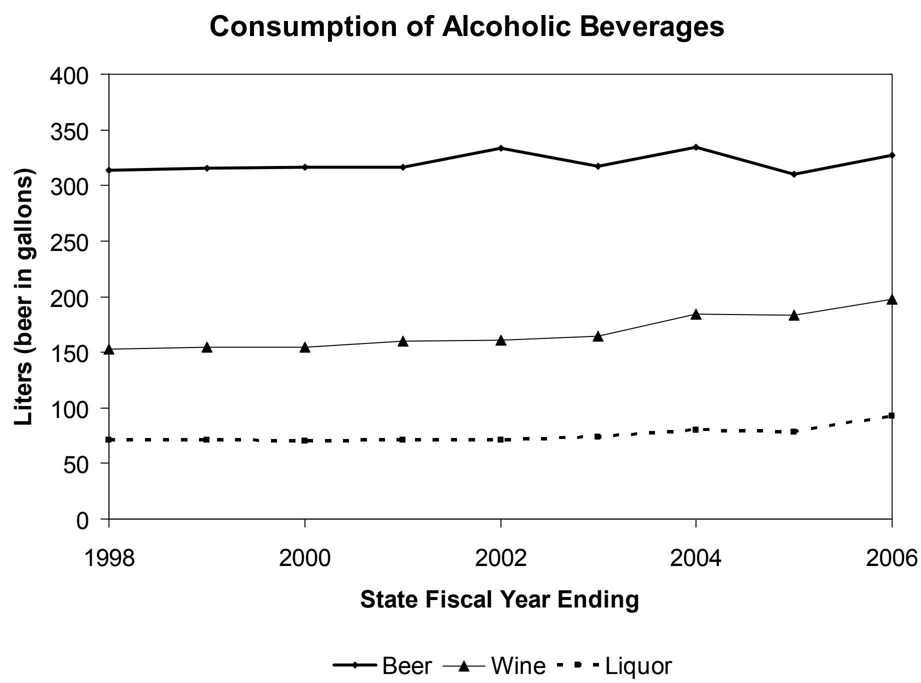
The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

Significant Legislation

The significant statutory changes to this tax source are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1989		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 5.5 cents to 11 cents per gallon; liquor with at least 24 percent alcohol from $1.08 to $1.40 per liter; liquor with between 2 and 24 percent alcohol from 26.4 cents to 55 cents per liter; wine from 3.2 cents to 5 cents per liter; and cider with at least 3.2 percent alcohol from 0.4 cents to 1 cent per liter.	May 1, 1989
Legislation Enacted in 1991		
Various Tax Increases	Increased the State excise tax rate on: beer with at least 0.5 percent alcohol from 11 cents to 21 cents per gallon; liquor with at least 24 percent alcohol from $1.40 to $1.70 per liter; liquor with between 2 and 24 percent alcohol from 55 cents to 66.8 cents per liter.	June 1, 1991
Legislation Enacted in 1995		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 21 cents to 16 cents per gallon.	January 1, 1996
Legislation Enacted in 1998		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 16 cents to 13.5 cents per gallon.	January 1, 1999

Subject	Description	Effective Date
Legislation Enacted in 1999		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 13.5 cents to 12.5 cents per gallon.	April 1, 2001
Exemption	Increased the small brewers' tax exemption from the first 100,000 barrels of domestically brewed beer to 200,000 barrels.	April 1, 2001
Legislation Enacted in 2000		
Exemption	Accelerated the small brewers exemption increase by moving the effective date from April 1, 2001, to January 1, 2000.	January 1, 2000
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 12.5 cents to 11 cents per gallon.	September 1, 2003



TAX LIABILITY

Overall, per capita consumption of taxed beverages and receipts has remained fairly constant in recent years with declines in one beverage class being offset with increases in others, due to shifts in consumer preferences. For example, wine and liquor consumption in recent years has increased relative to beer consumption. In addition, the movement of alcoholic beverage demand towards less expensive beverages with lower alcohol content is attributed, in part, to the impact of rising relative prices on beverages with higher alcohol content. Furthermore, the New York State tax on liquor is relatively high in comparison to both other forms of alcohol and to other states.

OTHER STATES

Compared with the alcohol tax rates in the other states in the nation, New York State has:

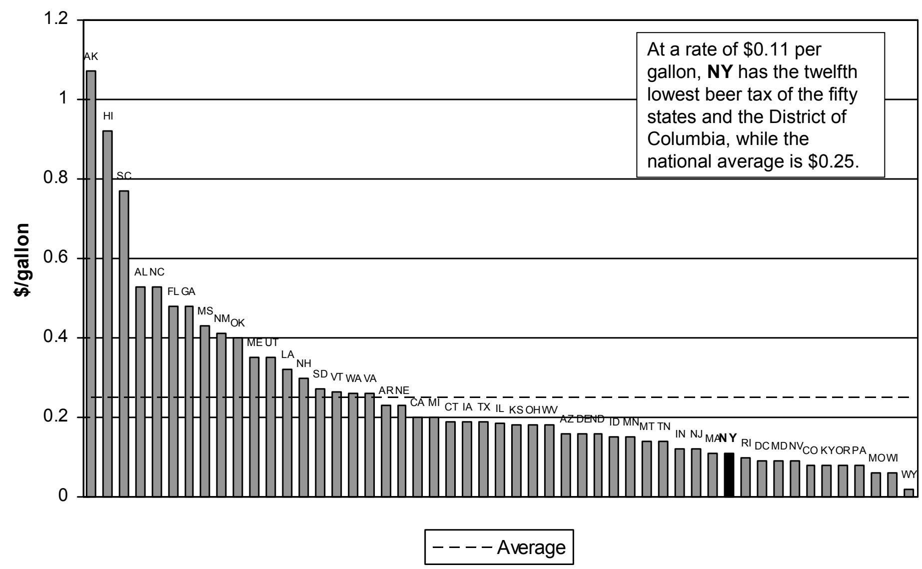
- The twelfth lowest beer tax in the nation;

- The second lowest wine tax in the nation (of those participating states*); and
- The third highest liquor tax in the nation (of those participating states**).

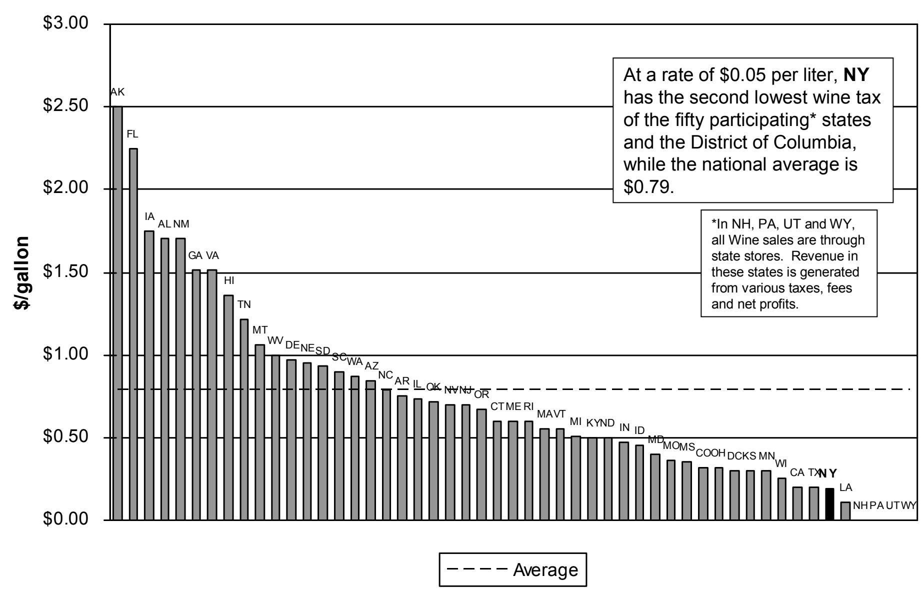
* In NH, PA, UT and WY, all wine sales are through state stores. Revenue in these states is generated from various taxes, fees and net profits.

** In 18 states, the government directly controls the sale of distilled spirits. Revenue in these states is generated from various taxes, fees and net profits.

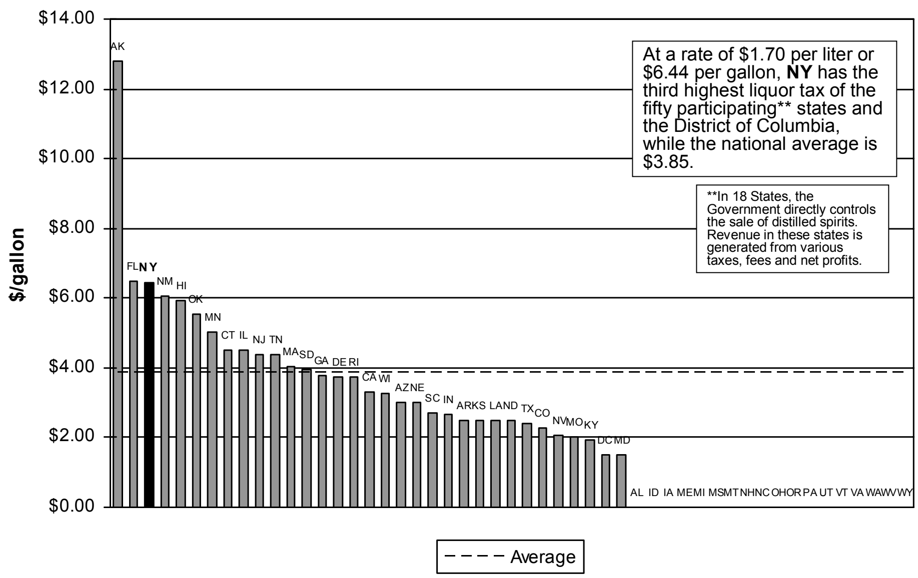
Beer Tax Rates by State
2005-06



Wine Tax Rates by State
2005-06



Liquor Tax Rates by State
2005-06



The State continues to suffer tax avoidance and evasion due to the bootlegging of alcoholic beverages from other states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions (see table below). Additionally, the legislation provided higher fines for the bootlegging of varying volumes of liquor. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and tax base, thereby moderating year-over-year declines in State alcoholic beverage tax receipts. Legislation enacted in 2002 extended these provisions to October 31, 2007. Legislation proposed with this Budget would extend these provisions to October 31, 2009.

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage taxes, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS

Violations	Volume	Penalties
Import liquor without registration		Class A misdemeanor
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments		Class A misdemeanor
Cause liquor covered by a warehouse receipt to be removed from a warehouse		Class A misdemeanor
Three or more above violations in a five-year period		Class E felony
Import liquor without registration	More than 360 liters within one year	Class E felony
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments	More than 360 liters within one year	Class E felony

Violations	Volume	Penalties
Cause liquor covered by a warehouse receipt to be removed from a warehouse	More than 360 liters within one year	Class E felony
Custody, possession or control of liquor without registration or tax payments		Class B misdemeanor
Custody, possession or control of liquor without registration or tax payments	Exceeds 360 liters	Class E felony
Import liquor without registration	More than 90 liters	Seize transportation vehicles and liquor.
Distribute or hold liquor for sale without paying alcoholic beverage taxes	More than 90 liters	Seize transportation vehicles and liquor.
Failure by a distributor to pay the tax		10 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100 but shall not exceed 30 percent in aggregate.
Failure by any other person to pay the tax		50 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100.

RECEIPTS: ESTIMATES AND PROJECTIONS

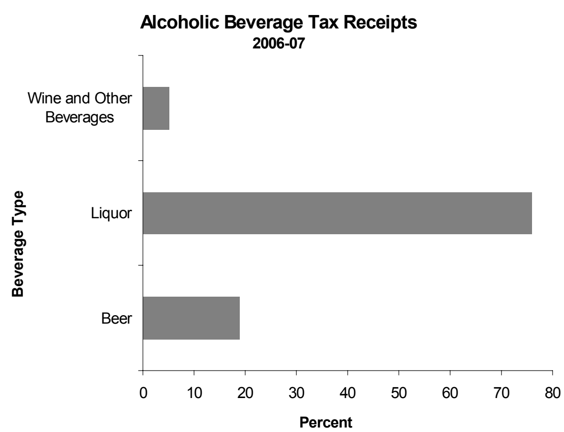
All Funds

2006-07 Estimates

All Funds collections to date are $150.1 million, an increase of $4.7 million, or 3.2 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $195.9 million, an increase of $4.2 million, or 2.2 percent above last year.

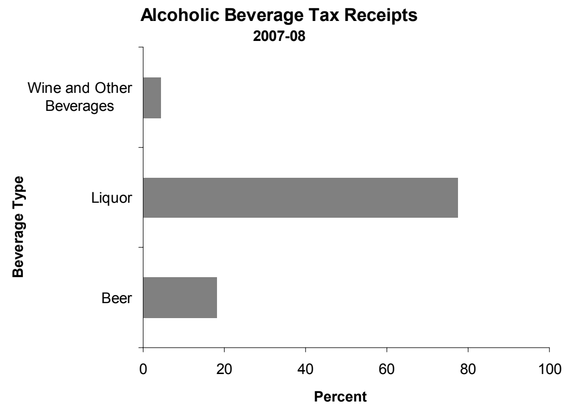
The bulk of estimated receipts, $147 million, are derived from the tax on liquor. Beer will generate an estimated $37 million and wine and other taxed beverages an estimated $11.9 million.



COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS (millions of dollars)							
	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 Estimated	2007-08 Projected
Beer	42	39	39	34	36	37	38
Liquor	128	132	143	141	145	147	149
Wine and Other	9	9	10	10	11	12	13
Total	178	180	191	185	192	196	200

2007-08 Projections

All Funds receipts are projected to be $200.2 million, an increase of $4.2 million, or 2.2 percent above 2006-07.



Based on recent trends, the consumption of beer, wine and liquor are expected to grow modestly in 2007-08.

Of the total projected alcoholic beverage tax receipts, $149 million is derived from liquor, $38 million from beer, and $13 million from wine and other specialty beverages.

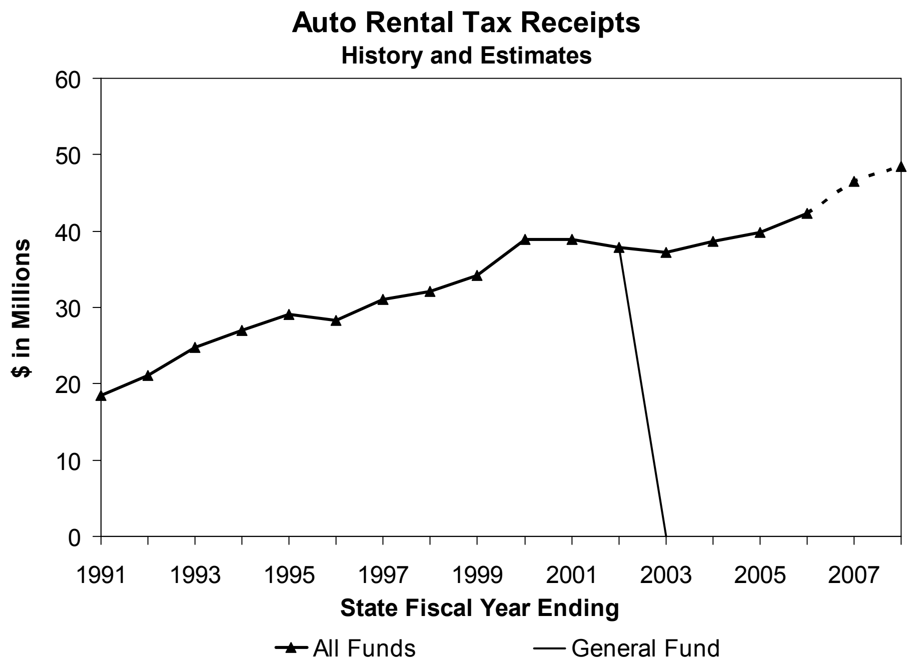
General Fund

Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

AUTO RENTAL TAX

AUTO RENTAL TAX (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	42.3	46.5	4.2	9.9	48.5	2.0	4.3
All Funds	42.3	46.5	4.2	9.9	48.5	2.0	4.3

Note: Totals may differ due to rounding.



AUTO RENTAL TAX BY FUND (thousands of dollars)			
	General Fund	Capital Projects Funds[1]	All Funds Receipts
1997-98	32,039	0	32,039
1998-99	34,241	0	34,241
1999-2000	38,843	0	38,843
2000-01	38,916	0	38,916
2001-02	37,914	0	37,914
2002-03	0	37,191	37,191
2003-04	0	38,593	38,593
2004-05	0	39,824	39,824
2005-06	0	42,303	42,303
Estimated			
2006-07	0	46,500	46,500
2007-08	0	48,500	48,500

[1] Dedicated Highway and Bridge Trust Fund.

AUTO RENTAL TAX

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

Since June 1, 1990, the State has imposed a five percent tax on charges for the rental or use in New York State of a passenger car with a gross vehicle weight of 9,000 pounds or less.

The auto rental tax applies to a vehicle rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of one year or more.

Administration

The auto rental tax is remitted quarterly by the vendor on the vendor's sales tax return to the Department of Taxation and Finance.

TAX LIABILITY

Receipts from the auto rental tax are influenced by the overall health of the economy, particularly consumer and business spending on travel. Unusual events that affect travel have had a significant influence on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the auto rental tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $37.5 million, an increase of $3.5 million, or 10.3 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $46.5 million, an increase of $4.2 million, or 9.9 percent above last year.

2007-08 Projections

All Funds receipts are projected to be $48.5 million, an increase of $2.0 million, or 4.3 percent above 2006-07. The estimate assumes a return to an historical average rate of growth for this tax.

General Fund

Since April 1, 2002, no auto rental tax receipts have been deposited in the General Fund.

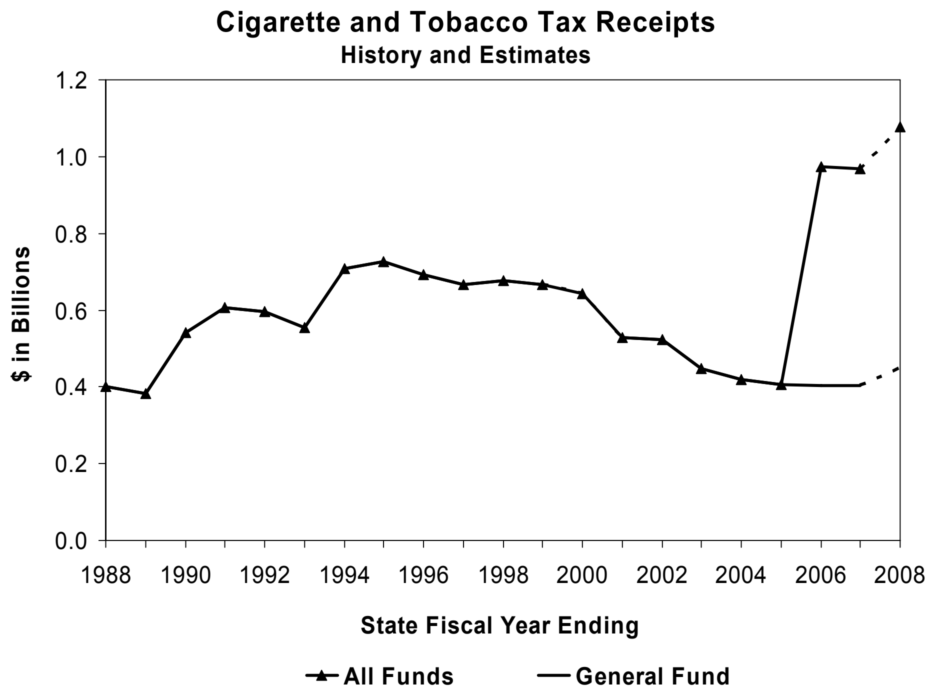
Other Funds

Legislation enacted in 2002 dedicated all receipts from the auto rental tax to the Dedicated Highway and Bridge Trust Fund, effective April 1, 2002.

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	403.6	404.1	0.5	0.1	446.6	42.5	10.5
Other Funds	570.5	565.3	(5.2)	(0.9)	630.9	65.6	11.6
All Funds	974.1	969.4	(4.7)	(0.5)	1,077.5	108.1	11.2

Note: Totals may differ due to rounding.



CIGARETTE AND TOBACCO TAXES BY FUND (millions of dollars)					
	Gross General Fund	Refunds	General Fund	Special Revenue Funds*	All Funds Receipts
1997-98	681	5	676	0	676
1998-99	672	5	667	0	667
1999-2000	649	5	643	0	643
2000-01	533	4	528	0	528
2001-02	530	7	523	0	532
2002-03	454	8	446	0	446
2003-04	428	9	419	0	419
2004-05	409	3	406	0	406
2005-06	406	2	404	571	974
Estimated					
2006-07	406	2	404	565	969
2007-08	449	2	447	631	1,078

Between March 2000 and March 2005, a portion of the State's cigarette tax receipts was deposited in the off-budget Tobacco Control and Insurance Initiatives Pool established in the Heath Care Reform Act of 2000. After March 2005, that portion is deposite

PROPOSED LEGISLATION

No new legislation for these taxes is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

The New York State cigarette excise tax is imposed by Article 20 of the Tax Law on the sale or use of cigarettes within the State. The current tax rate is $1.50 per package of 20 cigarettes.

The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. The Federal tax rate was increased from 24 cents to 34 cents per pack on January 1, 2000, and again to 39 cents per pack on January 1, 2002. Effective March 1, 2000, New York raised its tax by 55 cents to $1.11 per pack and effective April 3, 2002, by 39 cents to $1.50 per pack. New York City also levies a separate cigarette excise tax of $1.50 per pack.

STATE, FEDERAL AND NEW YORK CITY CIGARETTE EXCISE TAX RATES PER PACK OF 20 CIGARETTES (since 1950)

State		Federal		New York City	
	Rate (cents)		*Rate* (cents)		*Rate* (cents)
Before April 1, 1959	2	Before November 1, 1951	7	Before May 1, 1959	1
January 1, 1948	3	November 1, 1951	8	May 1, 1959	2
April 1, 1959	5	January 1, 1983	16	June 1, 1963	4
April 1, 1965	10	January 1, 1991	20	January 1, 1976	8
June 1, 1968	12	January 1, 1993	24	July 2, 2002	150
February 1, 1972	15	January 1, 2000	34		
April 1, 1983	21	January 1, 2002	39		
May 1, 1989	33				
June 1, 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				

The State also imposes a tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco, at a rate of 37 percent of their wholesale price. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

Retail establishments that sell cigarettes are required to purchase licenses. Vending machine owners are required to purchase stickers from the Department of Taxation and Finance.

The following table provides a comparison of state and maximum local cigarette tax rates.

CIGARETTE TAX RATES
Cents Per Pack Ranked by State Tax Rate
As of January 1, 2007

Rank (Low to High)	State Rate	Maximum Local Rate	Maximum State and Local Rate
South Carolina	7.0		7.0
Missouri	17.0	7.0	24.0
Mississippi	18.0		18.0
Tennessee	20.0	1.0	21.0
Kentucky	30.0		30.0
Virginia	30.0	65.0	95.0
Florida	33.9		33.9
North Carolina	35.0		35.0
Iowa	36.0		36.0
Louisiana	36.0		36.0
Georgia	37.0		37.0
Alabama	42.5	6.0	48.5
North Dakota	44.0		44.0
Delaware	55.0		55.0
West Virginia	55.0		55.0
Indiana	55.5		55.5
Idaho	57.0		57.0
Arkansas	59.0		59.0
Wyoming	60.0		60.0
Nebraska	64.0		64.0
Utah	69.5		69.5
Wisconsin	77.0		77.0
Kansas	79.0		79.0
New Hampshire	80.0		80.0
Nevada	80.0		80.0
Colorado	84.0		84.0
California	87.0		87.0
New Mexico	91.0		91.0
National Average	**98.0**		**98.0**
Illinois	98.0	268.0	366.0
District of Columbia	100.0		100.0
Maryland	100.0		100.0
Oklahoma	103.0		103.0
Arizona	118.0		118.0
Oregon	118.0		118.0
Minnesota	123.0		123.0
Ohio	125.0	4.5	129.5
Pennsylvania	135.0		135.0
Texas	141.0		141.0
New York	**150.0**	**150.0**	**300.0**
Massachusetts	151.0		151.0
Connecticut	151.0		151.0
South Dakota	153.0		153.0
Hawaii	160.0		160.0
Montana	170.0		170.0
Vermont	179.0		179.0
Alaska	180.0	130.0	310.0
Maine	200.0		200.0
Michigan	200.0		200.0
Washington	202.5		202.5
Rhode Island	246.0		246.0
New Jersey	257.5		257.5

Administration

State-registered stamping agents who are mostly wholesalers purchase tax stamps from the State and affix the stamps to cigarette packages to be sold by New York State registered retailers. The excise tax is paid by the stamping agent and is passed on. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Native American lands, must remit the cigarette excise tax directly to the Department of Taxation and Finance. An individual may bring two cartons into the State without being subject to the excise tax.

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. Widespread evasion not only reduces State and local revenues, but also reduces the income of legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. Legislation, enacted in 1996, substantially increased penalties for retailers and wholesalers who sell unstamped or illegally stamped packages of cigarettes. Further legislation enacted in 2002 increased the number of enforcement agents.

The positive effects of the 1996 enforcement legislation were realized later that year, with an increase in the number of new retailer license applications. This increase, as well as an enhanced State enforcement presence, may have led to less severe declines in taxable cigarette consumption than otherwise would have occurred.

In 2000, comprehensive legislation was enacted at combating cigarette bootlegging and reducing youth and adult smoking by banning Internet sales and the delivery by common carrier of cigarettes to individual consumers in New York. This law does not apply to the U.S. Postal Service. After a lawsuit by Brown and Williamson Tobacco, this legislation was ruled unconstitutional by the U.S. District Court of the Southern District of New York and enjoined from going into effect. The State's appeal was heard in June 2002 and the law became effective in March 2003 when the U.S. Circuit Court of Appeals ruled for the State. Appeals in this case have been exhausted. In April 2003, trucking associations from New York, New Jersey and Connecticut filed a separate suit to have the statute declared unconstitutional. The case was decided in favor of the State by the U.S. District Court of the Southern District of New York in December 2004. Other cases filed by Native American tribes in New York seek to allow the tribes to ship cigarettes directly to New York consumers via common carriers and are in various stages of litigation. In 2007, the State will implement statutes designed to allow the collection of the State's cigarette tax on cigarettes sold on New York reservations when purchased by non-Native Americans. In January 2007, a preliminary injunction was issued in the State Supreme Court enjoining the enforcement of these statutes until certain actions, including the issuance of enabling regulations and the distribution of Indian tax exempt coupons, are taken. Further litigation may be brought upon the implementation of the statutes.

Significant Legislation

The significant statutory changes to cigarette and tobacco taxes since 1939 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1939		
Cigarettes – Imposition	Imposed a “temporary” tax on the sale of cigarettes at the rate of $0.02 per pack	July 1, 1939
Legislation Enacted in 1947		
Cigarettes – Permanent	Made the $0.02 per pack tax on cigarettes permanent.	March 8, 1947
Cigarettes – Additional Tax	Imposed an additional $0.01 per pack tax (0.5 cents per 10 cigarettes) to finance the “war bonus account.”	January 1, 1948
Legislation Enacted in 1949		
Cigarettes – Use Tax	Enacted a cigarette use tax.	May 1, 1949
Legislation Enacted in 1959		
Cigarettes - Increase	Increased the cigarette tax to $0.05 per pack from $0.03.	April 1, 1959
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1959
Legislation Enacted in 1961		
Tobacco – Repeal	Repealed the tobacco products tax.	July 1, 1961
Legislation Enacted in 1985		
Cigarettes - CMSA	Enacted the Cigarette Marketing Standards Act (CMSA) as Article 20-A of the Tax Law.	November 1, 1985
Legislation Enacted in 1989		
Tobacco – Imposition	Enacted a tobacco products tax equal to 15 percent of the wholesale price of tobacco products.	July 1, 1989
Legislation Enacted in 1993		
Tobacco – Rate Increase	Increased the tobacco products tax to 20 percent of the wholesale price from 15 percent.	June 1, 1993
Legislation Enacted in 1996		
Enforcement Provisions	Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information.	December 3, 1996
Legislation Enacted in 1999		
Cigarette Tax Increase	Increased the cigarette excise tax from 56 cents to $1.11 per pack, as part of the Health Care Reform Act (HCRA) of 2000.	March 1, 2000
Legislation Enacted in 2000		
Underage Smoking	Increased penalties for illegal sales of tobacco products to minors.	September 1, 2000
Enforcement Provisions	Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents.	November 16, 2000
Enforcement Provisions	Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents.	January 1, 2001
Safe Cigarettes	Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York.	July 1, 2004
Legislation Enacted In 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.11 per pack to $1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002
Legislation Enacted In 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006

TAX LIABILITY

Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recently, declines in taxable consumption have been exacerbated by evasion.

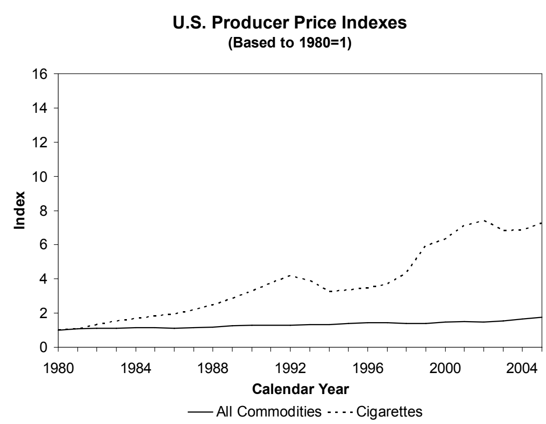
Cigarette Sales, Prices and State and Federal Tax as a Percent of Retail Price

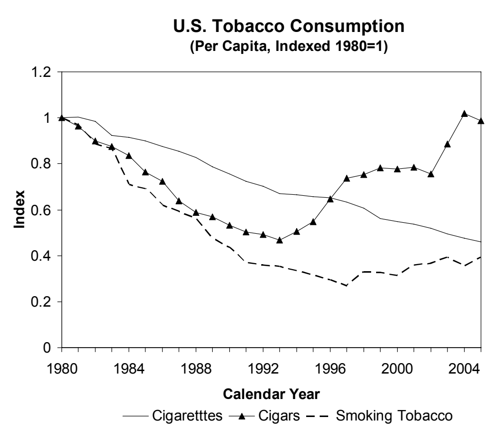
	1965	1970	1975	1980	1985	1990	1995	2000	2005
Tax-Paid Sales (Millions of Packs)	2,480.4	2,180.9	2,243.7	2,251.6	2,075.9	1,689.9	1,285.4	1,048.7	624.4
Average Retail Price (cents per pack)	26.5	40.7	51.5	64.4	106.2	167.4	212.1	326.8	548.5
State & Federal Tax as a Percent of Retail Price	49.1	49.1	44.7	35.7	34.8	29.2	37.7	24.5	34.5

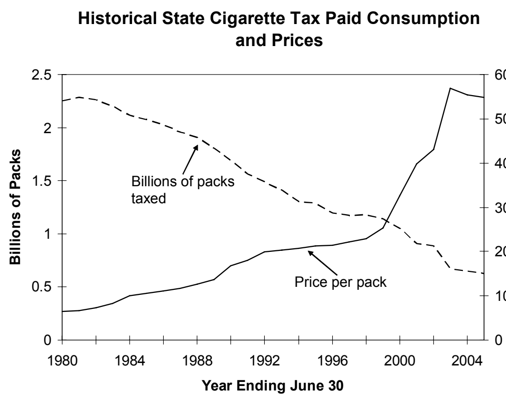
Source: Orzechowski and Walker

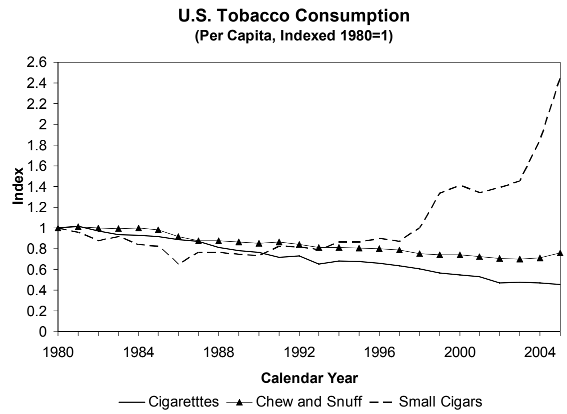
Taxable cigarette consumption in New York has declined by more than 70 percent since 1980, due to the factors noted in the previous paragraph. The following graphs summarize the most important trends, which are the inverse relationship between cigarette prices and consumption, the large magnitude of wholesale cigarette price increases relative to other goods, and consumer substitution of other tobacco products for cigarettes.

For a more detailed discussion of the methods and models used to develop estimates and projections for the cigarette and tobacco taxes, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.









TOBACCO MSA PAYMENTS

Under the Tobacco Master Settlement Agreement (MSA) reached between states and manufacturers in 1998, manufacturers are required to make payments to New York. The amounts of these payments are subject to various adjustments. The adjustment for the volume of packs shipped is based on national shipments, and changes in New York consumption will have only a minor import. In 2003 and 2004, New York State issued $4.2 billion in tobacco bonds and used these payments to pay debt service.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

Total collections (including HCRA) to date are $770.9 million, an increase of $1.3 million from the comparable period in the prior fiscal year. Total receipts for 2006-07 are estimated to be $969 million, a decrease of $5 million, or 0.5 percent below last year. Over the past two years, the secular decline in taxable consumption has slowed.

2007-08 Projections

All Funds receipts are projected to be $1,078 million, an increase of $108 million or 11.2 percent above 2006-07. Implementation of statutes requiring the collection of tax on sales by Native American retailers to non-native Americans and enforcement of these regulations is anticipated to result in an increase in receipts by $124 million in 2007-08.

The long-term factors reducing cigarette consumption will continue to exert negative pressure on receipts. Since cigarette prices are high in New York relative to the national average, there remains an added incentive for smokers to avoid paying the tax by purchasing retail cigarettes in surrounding states, bootlegged cigarettes, or cigarettes sold through mail order or on the Internet.

Health Care Reform Act (HCRA)

Legislation passed in 2002 established the percentage distribution of cigarette tax receipts as shown in the following table.

Cigarette Tax Distribution (percent)	
Current Law	
April 1, 2002, to April 30, 2002	
General Fund	56.30
HCRA	43.70
May 1, 2002, to March 31, 2003	
General Fund	35.45
HCRA	64.55
Beginning April 1, 2003	
General Fund	38.78
HCRA	61.22

Currently, 61.22 percent of the proceeds from the State cigarette tax of $1.50 is deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000. Prior to the 2005-06 SFY, HCRA was not included within the State's fund structure. Beginning in 2005-06, the Tobacco Control and Insurance Initiatives Pool is included in All Funds collections as a Special Revenue Fund.

Based on the percentage distribution of cigarette tax, the pool will receive an estimated $565 million in 2006-07 and would receive a projected $631 million in 2007-08 from State cigarette tax receipts. Collections to date are $449.6 million, $1.2 million or 0.3 percent below receipts for the first 9 months of 2005-06.

As part of the agreement allowing New York City to increase its cigarette tax from eight cents to $1.50 in July 2002, the City provides the State with 46 percent of the revenue generated through its tax. All of this revenue is deposited into the Tobacco Control and Insurance Initiatives Pool. New York State share of the City's cigarette tax is projected to be $101 million in 2006-07 and $102 million in 2007-08.

CIGARETTE AND TOBACCO TAX RECEIPTS
(millions of dollars)

Fiscal Year	General Fund				HCRA	General Fund Plus HCRA
	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax*	
1997-98	652	20	3	676	0	676
1998-99	644	19	3	667	0	667
1999-2000	620	20	3	643	28	672
2000-01	504	21	4	528	495	1,024
2001-02	499	22	2	523	481	1,005
2002-03	404	38	5	446	675	1,121
2003-04	376	40	3	419	593	1,013
2004-05	363	40	3	406	573	979
2005-06	361	39	3	404	571	974
2006-07**	358	43	3	404	565	969
2007-08**	400	44	3	447	631	1,078

Note: Components may not add to total due to rounding.
* Prior to 2005-06, HCRA Cigarette Tax receipts were deposited to the off-budget Tobacco Control and Insurance Incentive Pool established in the Health Care Reform Act of 2000.
** Estimated

General Fund

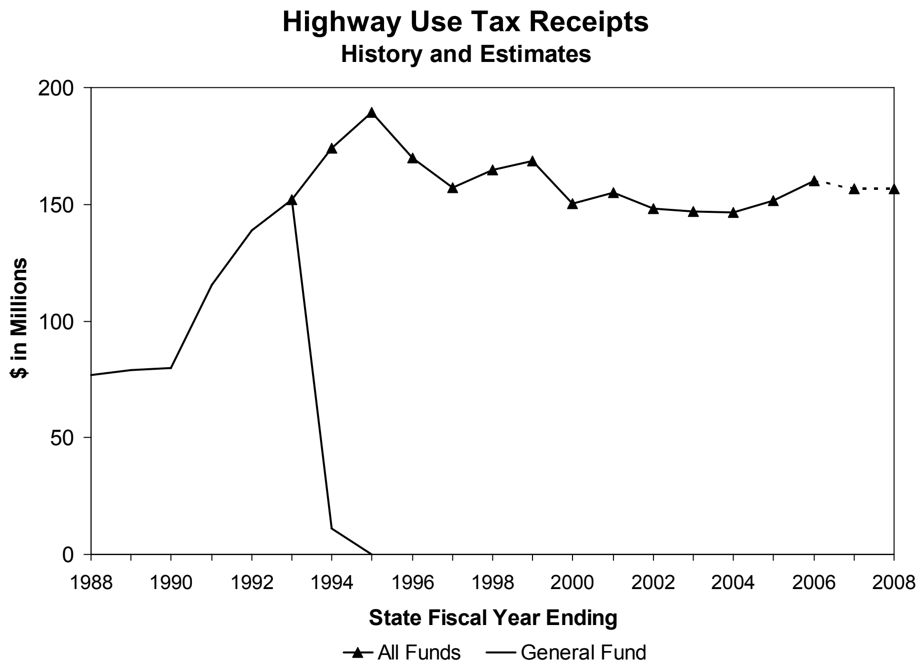
General Fund cigarette and tobacco tax receipts for 2006-07 are estimated at $404.1 million, an increase of $0.5 million, or 0.1 percent, from 2005-06. To date, General Fund cigarette and tobacco tax receipts are an estimated $321.3 million, an increase of $2.5 million, or 0.8 percent above the comparable period in the prior fiscal year. Receipts from the tobacco products tax have increased by 3.0 million year-to-date, and are projected to be $43 million for the year. This increase is due to continuation of consumption trends, and shifts by cigarette smokers to other tobacco products, including roll-your-own tobacco, as a result of continued price increases for cigarettes.

For 2007-08, General Fund cigarette tax receipts are projected at $399.6 million, an increase of $41.5 million, as a result of increased enforcement actions. The tax on tobacco products is expected to total $44 million, an increase of $1.0 million from 2006-07. Sales of retail licenses and vending machine stickers are projected to yield $3.0 million.

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	160.2	156.6	(3.6)	(2.2)	156.6	0.0	0.0

Note: Totals may differ due to rounding.



HIGHWAY USE TAX BY FUND (millions of dollars)				
	Gross Capital Projects Funds[1]	Refunds	Capital Projects Funds[1]	All Funds Receipts
1997-98	168	3	165	165
1998-99	172	3	169	169
1999-2000	152	2	150	150
2000-01	157	2	155	155
2001-02	150	2	148	148
2002-03	149	2	147	147
2003-04	149	2	147	147
2004-05	153	2	151	151
2005-06	162	2	160	160
Estimated				
2006-07	159	2	157	157
2007-08	159	2	157	157

[1] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would replace the current highway use permit system with a registration system. This change would conform the State's highway use tax with Federal law.

DESCRIPTION

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. Highway use tax revenues are derived from three sources: the truck mileage tax, highway use permit fees, and the fuel use tax.

Truck Mileage Tax

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. Under the gross weight method, the tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

In addition, a supplemental tax equal to the base truck mileage tax was imposed in 1990. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the supplemental tax was reduced by an additional 20 percent of the remaining tax.

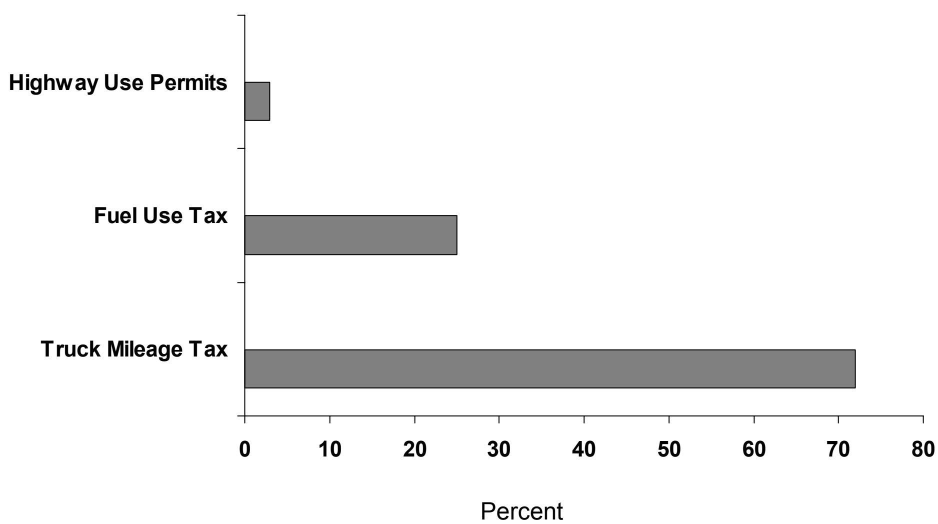
BASE TRUCK MILEAGE TAX RATES

Gross Weight Method		Unloaded Weight Method	
Laden Miles Gross Weight of Vehicle	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles Unloaded Weight of Truck		**Unloaded Weight of Tractor**	
		4,001 to 5,500	6.0
18,001 to 20,000	6.0	5,501 to 7,000	10.0
20,001 to 22,000	7.0	(increased gradually to)	
(increased gradually to)		10,001 to 12,000	25.0
28,001 to 30,000	10.0	12,001 and over	33.0
30,001 and over	add 5/10 of a mill per ton and fraction thereof		
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
8,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 5/10 of a mill per ton and fraction thereof		

Highway Use Permits

Highway use permits are used to denote those vehicles subject to the highway use tax. The permits are issued triennially at a cost of $15 for an initial permit and $4 for a permit renewal. Additionally, special permits are issued for the transportation of motor vehicles, for automotive fuel carriers, and for trips into New York State not to exceed 72 hours.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2006-07



Fuel Use Tax

The fuel use tax is a complement to the motor fuel tax and the sales tax, and is levied on commercial vehicles: (1) having two axles and a gross vehicle weight of more than 26,000 pounds; (2) having three or more axles, regardless of weight; or (3) used in combination when the gross vehicle weight exceeds 26,000 pounds. In contrast to the motor fuel tax, which is imposed upon the amount of fuel purchased within the State, the fuel use tax is imposed on fuel purchased outside but used within New York. This tax is levied on the basis of the number of miles traveled on the public highways of the State. The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The motor fuel tax component is $0.08 per gallon. The sales tax component is derived by adding the amount from the capped State sales tax rate ($2.00 x 4% = $0.08 per gallon) and the amount from the lowest county sales tax rate ($2.00 x 3% = $0.06 per gallon), or $0.14 per gallon. If the lowest county sales tax rate increases above 3 percent, the sales tax component would increase. The current fuel use tax rate is $0.22 per gallon. A credit or refund is allowed for motor fuel tax or sales tax paid on fuels purchased in New York but not used within the State.

Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Significant Legislation

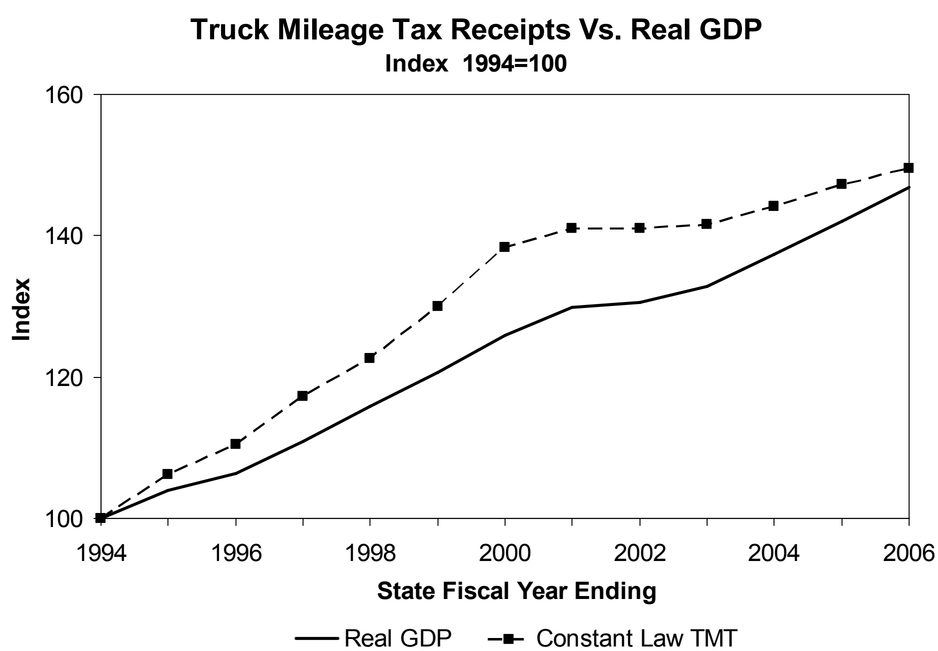
The significant statutory changes to this tax source since 1951 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1951		
Truck Mileage Tax	Imposed a truck mileage tax based on weight and miles driven in New York (Mileage on State Thruway was exempted).	1951 and after
Legislation Enacted in 1960		
Tax Calculation	Created an optional method introduced for determining tax, based on unloaded weight and mileage.	1960 and after
Legislation Enacted in 1968		
Fuel Use Tax	Added the fuel use tax (rate equaled the motor fuel excise tax rates) and applied to fuel purchased out of State but used in New York State.	1968 and 1970
Legislation Enacted in 1977		
Sales Tax Component	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
FUT Rate Change	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1982		
Fuel Carrier Permit	Every automotive fuel carrier must have a special Automotive Fuel Carrier permit and distinctively colored sticker for each motor vehicle, required to be registered under the Highway Use Tax Law.	September 1, 1982
Legislation Enacted in 1987		
Trip Permit	Established a 72-hour “trip permit.”	October 1, 1987
Legislation Enacted in 1990		
Thruway Miles and Supplemental Tax	Applied the truck mileage tax to thruway miles. Imposed a supplemental tax equal to the base mileage tax.	July 1, 1990
Legislation Enacted in 1993		
Trust Fund	Earmarked receipts to the Dedicated Highway and Bridge Trust Fund.	April 1, 1993
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996.	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995

Subject	Description	Effective Date
International Fuel Tax Agreement	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provides for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles that had been taxed in New York were excluded from the fuel use tax.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted fuel use tax on alternative fuels, including E85 and B20.	September 1, 2006
Fuel Use Tax Cap	Capped the statewide rate for the sales tax component at 8 cents per gallon for motor fuel and diesel motor fuel for the State rate, plus the lowest county sales tax rate.	June 1, 2006

TAX LIABILITY

Highway use tax receipts are a function of the demand for trucking, which fluctuates with national and State economic conditions.



For a more detailed discussion of the methods and models used to develop estimates and projections for the highway use tax, please see *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $118.8 million, a decrease of $2.3 million, or 1.9 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $156.6 million, a decrease of $3.6 million, or 2.2 percent below last year.

Truck mileage tax receipts to date for 2006-07 are 3.3 percent below the comparable 2005-06 period. Fuel use tax receipts to date for 2006-07 are 6.4 percent above the comparable 2005-06 period.

Based on collection experience to date and the improved economic outlook (see Economic Backdrop section), highway use tax receipts will continue to grow in line with real growth in the economy for the rest of the State fiscal year. This will be offset by the $2 cap on motor fuel and diesel motor fuel which resulted in a reduction of $3 million in fuel use tax collections. Net truck mileage tax receipts are projected at $114.3 million, fuel use tax receipts at $37.4 million and permit fees at $4.9 million. The proposed legislative change of replacing the current highway use permit system with a registration system is intended to be revenue neutral.

2007-08 Projections

All Funds receipts are projected to be $156.6 million, the same amount as in 2006-07.

The base of the truck mileage tax is expected to increase by 3.8 percent as a result of increased demand for trucking services related to overall economic growth. Net truck mileage tax receipts are estimated at $118.7 million. Due to the 8 cents per gallon tax cap on motor fuel and diesel motor fuel, the fuel use tax is estimated to decrease by $6 million. As a result, fuel use tax receipts are expected to decrease to $33.4 million. Permit fees of $4.5 million reflect a non-peak triennial renewal year. The fiscal impact from the exemption of alternative fuels is projected to be minimal.

General Fund

Since 1994-95, no highway use tax receipts have been deposited in the General Fund.

Other Funds

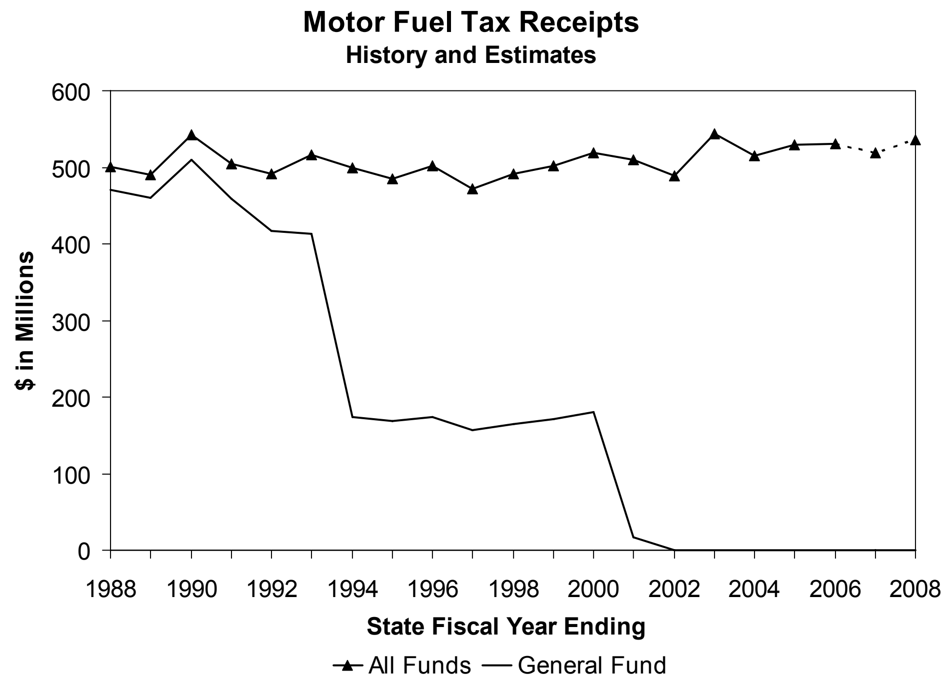
The Dedicated Highway and Bridge Trust Fund receives all highway use tax receipts.

MOTOR FUEL TAX

MOTOR FUEL TAX
(millions of dollars)

	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	530.7	518.6	(12.1)	(2.3)	536.3	17.7	3.4
All Funds	530.7	518.6	(12.1)	(2.3)	536.3	17.7	3.4

Note: Totals may differ due to rounding.



MOTOR FUEL TAX BY FUND
(millions of dollars)

	Gross All Funds Receipts	General Fund	Special Revenue Funds[1]	Capital Projects Funds[2]	Debt Service Funds[3]	All Funds Refunds	All Funds Receipts
1997-98	504	165	0	219	108	12	492
1998-99	512	171	0	221	110	10	502
1999-2000	534	180	0	225	114	15	519
2000-01	524	17	58	323	112	14	510
2001-02	502	0	62	320	107	13	489
2002-03	560	0	69	356	119	16	544
2003-04	528	0	105	411	0	12	516
2004-05	542	0	110	420	0	12	530
2005-06	546	0	111	420	0	15	531
Estimated							
2006-07	533	0	109	410	0	14	519
2007-08	550	0	112	424	0	14	536

[1] Dedicated Mass Transportation Trust Fund.
[2] Dedicated Highway and Bridge Trust Fund.
[3] Emergency Highway Reconditioning and Preservation Fund and Emergency Highway Construction and Reconstruction Fund.

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this Budget.

DESCRIPTION

Tax Base

Motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or on fuel used in recreational motorboats operating on the State's waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

Tax Rate

A motor fuel tax of two cents was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to 3 cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972. A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

Ranking of State Taxes on Gasoline (January 1, 2007)[1]

	STATE	STATE MOTOR FUEL TAX (cents per gallon)	Total State Tax (cents per gallon)[2]
1.	CONNECTICUT	25.0	36.0
2.	WASHINGTON	31.0	34.0
3.	ILLINOIS *	19.0	33.0
4.	MICHIGAN *	19.0	33.0
5.	WISCONSIN	30.9	32.9
6.	**NEW YORK ***	8.0	32.6
7.	CALIFORNIA *	18.0	32.0
8.	INDIANA *	18.0	32.0
9.	W. VIRGINIA	20.5	31.5
10.	PENNSYLVANIA	12.0	31.2
11.	RHODE ISLAND	30.0	31.0
12.	N. CAROLINA	26.6	29.9
13.	OHIO	28.0	28.0
14.	MONTANA	27.0	27.8
15.	NEBRASKA	27.0	27.0
16.	IDAHO	25.0	26.0
17.	HAWAII *	16.0	26.0
18.	MAINE	25.9	25.9
19.	KANSAS	24.0	25.0
20.	UTAH	24.5	24.5
21.	NEVADA	24.0	24.0
22.	OREGON	24.0	24.0
23.	S. DAKOTA	22.0	24.0
24.	MARYLAND	23.5	23.5
25.	MASSACHUSETTS	21.0	23.5
26.	DELAWARE	23.0	23.0
27.	N. DAKOTA	23.0	23.0
28.	COLORADO	22.0	22.0
29.	ARKANSAS	21.5	21.7
30.	TENNESSEE	20.0	21.4
31.	IOWA	20.0	21.0
32.	DIST. OF COLUMBIA	20.0	20.0
33.	LOUISIANA	20.0	20.0
34.	MINNESOTA	20.0	20.0
35.	TEXAS	20.0	20.0
36.	VERMONT	*19.0*	20.0
37.	NEW HAMPSHIRE	18.0	19.5
38.	ARIZONA	18.0	19.0
39.	GEORGIA *	7.5	19.0
40.	NEW MEXICO	17.0	18.9
41.	KENTUCKY	17.1	18.5
42.	MISSISSIPPI	18.0	18.4
43.	ALABAMA	16.0	18.0
44.	MISSOURI	17.0	17.6
45.	VIRGINIA	17.5	17.5
46.	OKLAHOMA	16.0	17.0
47.	S. CAROLINA	16.0	16.8
48.	FLORIDA	15.0	15.3
49.	NEW JERSEY	10.5	14.5
50.	WYOMING	13.0	14.0
51.	ALASKA	8.0	8.0

NOTES:
1. Assumes a pump price of $2.50
2. Includes applicable State sales tax (local sales tax is not included) and other fuel taxes and fees

* State sales tax applies on sales of gasoline in these states

Source: OTPA compilation from various sources including CCH State Tax Guide & FTA

Administration

Although the motor fuel tax is imposed on the ultimate consumer of the fuel, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which has involved bootlegging from other states and successions of tax-free sales among “dummy” corporations masked by erroneous record keeping and reporting.

Since 1988, taxes on diesel motor fuel have been collected upon the first non-exempt sale in the State. Prior to that time, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than $200 may remit quarterly. Chapter 55 of the Laws of 1992 requires accelerated remittance of the tax by taxpayers with annual liability of more than $5 million for motor fuel and petroleum business tax (PBT) combined. These taxpayers are required to remit taxes electronically or by certified check by the third business day following the first 22 days of each month. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. Taxes for the balance of the month are remitted by the twentieth of the following month.

Tax Expenditures

Exemptions from the motor fuel tax include:

- kerosene and crude oil;
- fuel not used in motor vehicles. "Motor vehicle" is defined as any vehicle propelled by power, except muscular power. However, vehicles such as boats (other than pleasure craft), road building machinery and tractors used exclusively for agricultural purposes are excluded from the definition of motor vehicles;
- fuel used in tanks of vehicles entering New York State;
- sales to state, local and Federal governments, the United Nations and qualifying Native American nations; and
- certain hospitals that qualify as exempt organizations under section 1116(a)(4) of the Tax Law.

Other exemptions apply only to the diesel motor fuel tax, including certain sales for heating purposes and sales of kero-jet fuel for use in airplanes.

Full and partial refunds and credits for tax paid are available for fuel used by:

- omnibus carriers or taxicabs;
- nonpublic school vehicle operators, exclusively for education-related purposes; and
- volunteer ambulance services.

Significant Legislation

The significant statutory changes to this tax source since 1985 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1985		
First Import	Motor fuel is taxed on a "first import" system.	June 1, 1985
Legislation Enacted in 1988		
First Sale	Diesel motor fuel is taxed on a "first sale" system.	September 1, 1988
Legislation Enacted in 1995		
Diesel Rate	Reduced the diesel motor fuel tax from 10 cents to 8 cents per gallon.	January 1, 1996
Aviation Fuel	Provided an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline.	September 1, 1995

Subject	Description	Effective Date
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternate Fuel	Exempted or partially exempted motor fuel tax on alternative fuels, including E85 and B20.	September 1, 2006

TAX LIABILITY

Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance.

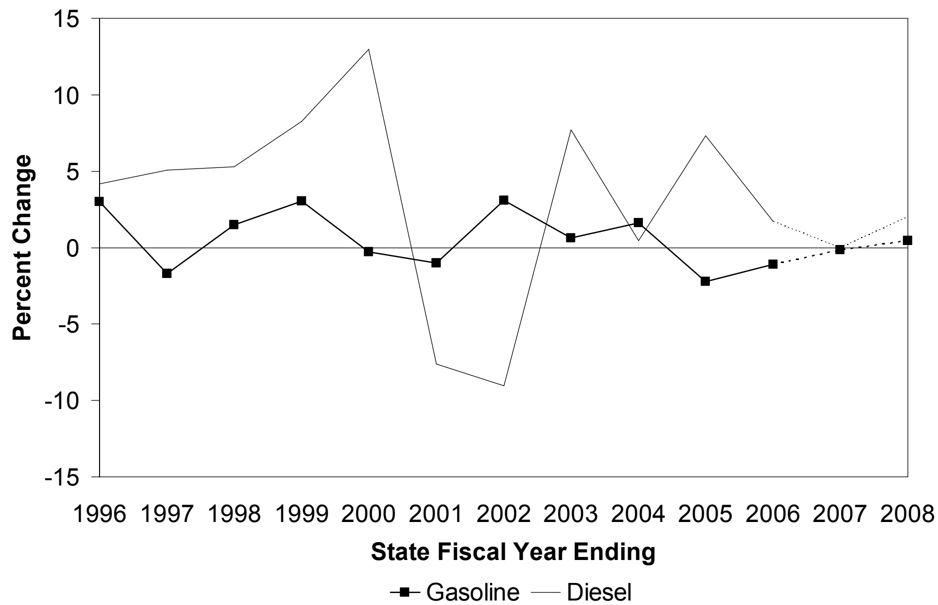
For a more detailed discussion of the methods and models used to develop estimates and projections for the motor fuel tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

Taxable Gallonage History

Diesel fuel consumption is more susceptible to economic events, while gasoline consumption is driven more heavily by fuel prices. The rebound in diesel gallonage demand from a cyclical low point in 2001-02 reflects robust demand for diesel fuel resulting from continued economic growth. Due to the higher fuel prices and a slowing of the economy, diesel fuel gallonage is estimated to only increase slightly in 2006-07.

Taxable gasoline gallonage declined slightly in 2000-01 due in part to price increases, and increased in 2001-02 due to price declines. In 2002-03 and 2003-04, gasoline gallonage increased at a slower growth rate due to economic recovery offset by high gasoline prices. In 2004-05 and 2005-06, gasoline gallonage declined 2.2 and 1.1 percent, respectively, due to a sharp increase in gasoline prices. A slight decrease in gasoline gallonage is projected for 2006-07.

Gasoline and Diesel Taxable Gallons



RECEIPTS: ESTIMATES AND PROJECTIONS

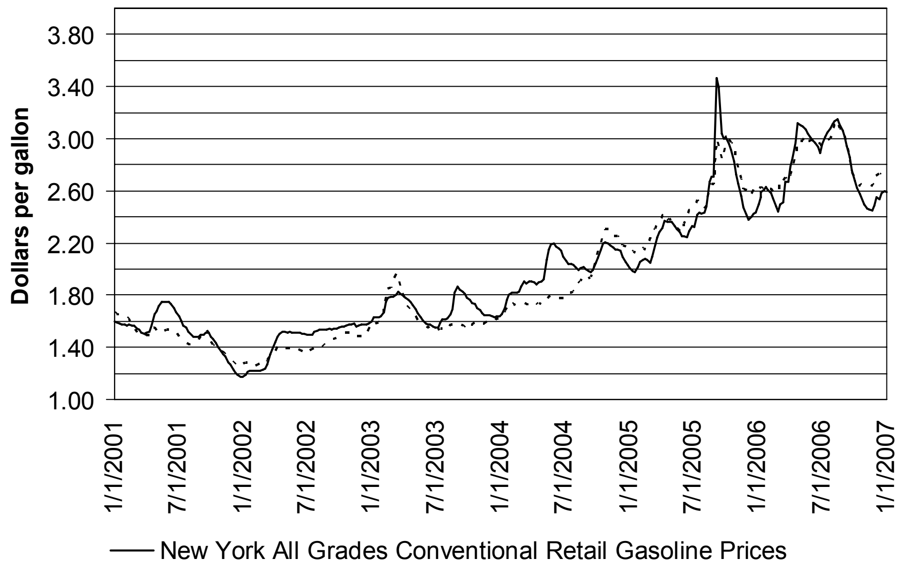
All Funds

2006-07 Estimates

All Funds collections to date are $392.8 million, a decrease of $9.4 million, or 2.3 percent below the comparable period in the prior fiscal year. The decline is directly related to increased fuel prices.

All Funds receipts for 2006-07 are estimated to be $518.6 million, a decrease of $12.1 million, or 2.3 percent below last year. The decline is related to reduced gasoline consumption due to high fuel prices. The following chart shows a history of weekly price changes.

Gasoline and Diesel Weekly Prices



Source: U.S. Department of Energy, Energy Information Administration (EIA)

2007-08 Projections

All Funds receipts are projected to be $536.3 million, an increase of $17.7 million, or 3.4 percent above 2006-07.

This increase is related in large part to the implementation of the statute governing the collection of this tax on sales to non-Native Americans on New York reservations. Enforcement of these provisions is expected to increase receipts in 2007-08 by $15 million. The fiscal impact from the tax exemption for alternative fuel purchases is projected to be minimal. Increases in taxable gasoline and diesel gallonage are projected to be modest, consistent with improved economic conditions, but tempered by estimated increases in fuel prices. A discussion related to energy prices can be seen in the Economic Forecast section of this volume.

Gasoline and Diesel Gallonage				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2003-04	5,798.30	1.62	842.70	0.46
2004-05	5,669.30	(2.22)	904.30	7.32
2005-06	5,606.70	(1.10)	919.90	1.72
2006-07 (Est.)	5,597.20	(0.17)	920.00	0.01
2007-08 (Est.)	5,622.80	0.46	938.40	2.00

General Fund

Motor fuel tax receipts are no longer deposited in the General Fund.

Other Funds

Since 2000, motor fuel tax receipts have been distributed by law to four funds: the Dedicated Highway and Bridge Trust Fund (DHBTF), the Dedicated Mass Transportation Trust Fund (DMTTF), the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund. Currently, all motor fuel receipts are deposited into the DHBTF and DMTTF. The fund distribution since 1993 is shown in the following table.

MOTOR FUEL TAX FUND DISTRIBUTION
(percent)

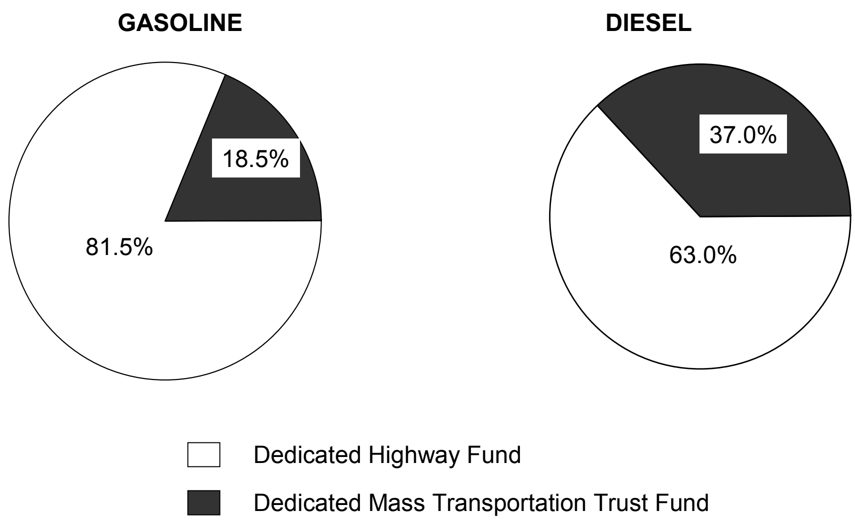
Effective Date	General Fund	DHBTF[1]	EHF[2]	DMTTF[3]
Prior to April 1, 1993				
Gasoline	78.1	0.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2000				
Gasoline	28.1	50.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2001				
Gasoline	0.0	67.7	21.9	10.4
Diesel	28.1	31.5	21.9	18.5
Prior to April 1, 2003				
Gasoline	0.0	67.7	21.9	10.4
Diesel	0.0	49.2	21.9	28.9
April 1, 2003 and After				
Gasoline	0.0	81.5	0.0	18.5
Diesel	0.0	63.0	0.0	37.0

[1] Dedicated Highway and Bridge Trust Fund.
[2] Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.
[3] Dedicated Mass Transportation Trust Fund.

Motor fuel tax receipts in 2006-07 are estimated to be $409.9 million for DHBTF and $108.8 million for DMTTF. Motor fuel tax receipts in 2007-08 are projected to be $423.8 million for DHBTF and $112.5 million for the DMTTF.

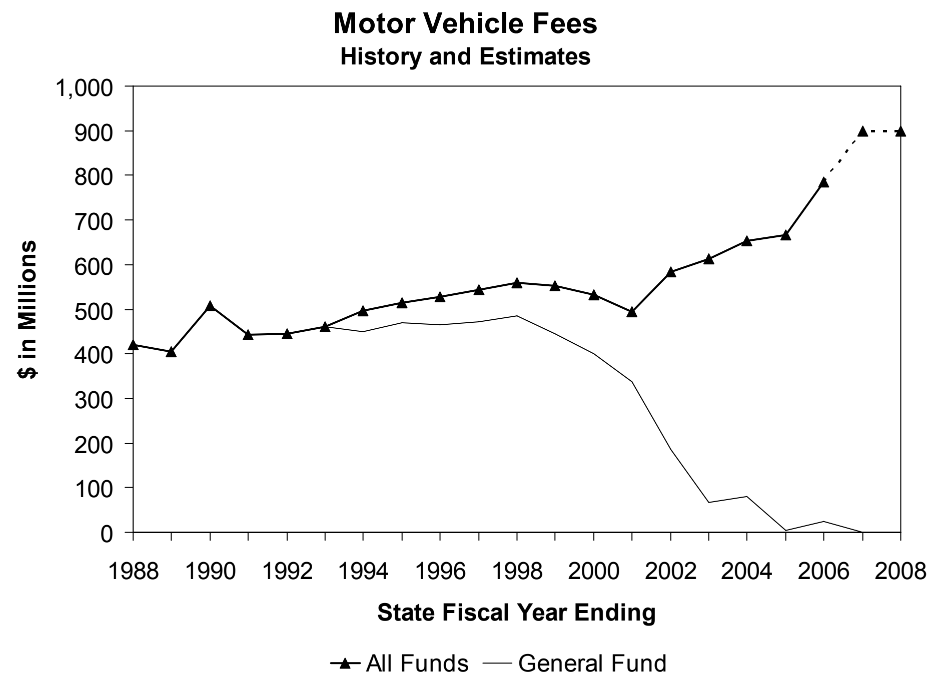
Motor Fuel Tax Distributions by Fund

State Fiscal Years 2006-07 and 2007-08



MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	23.7	0.0	(23.7)	(100.0)	0.0	0.0	0.0
Other Funds	761.6	899.9	138.3	18.2	899.9	0.0	0.0
Note: Totals may differ due to rounding.							



MOTOR VEHICLE FEES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds[1]	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts
1997-98	497	11	486	0	0	0	73	0	73	559
1998-99	438	14	424	0	0	0	108	0	108	532
1999-2000	419	18	401	0	0	0	130	0	130	531
2000-01	356	19	337	0	0	0	157	0	157	494
2001-02	208	23	185	28	0	28	371	0	371	584
2002-03	92	25	67	76	0	76	470	0	470	613
2003-04	100	18	82	105	0	105	468	0	468	655
2004-05	33	29	4	138	0	138	525	0	525	666
2005-06	24	0	24	211	5	206	571	15	556	785
Estimated										
2006-07	0	0	0	253	5	248	667	15	652	900
2007-08	0	0	0	253	5	248	667	15	652	900

[1]Dedicated Mass Transportation Trust Fund
[2]Dedicated Highway and Bridge Trust Fund

PROPOSED LEGISLATION

No new legislation for these fees is proposed with this Budget.

DESCRIPTION

Fee Base

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. In 2005, almost 10.5 million vehicles were registered in New York State, 940,000 of them being commercial vehicles. Vehicles owned by nonresidents and registered with a political jurisdiction outside the State are not usually required to be registered in New York. New York State Vehicle and Traffic Law requires drivers to be licensed by the Department of Motor Vehicles. The current license renewal period is eight years, and in 2005 New York State had over 11 million licensed drivers. Numerous other fees, related to the processes of registration or licensing, are another component of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

Fee Schedules

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Registration for vehicles weighing less than 18,000 pounds is biennial. The main registration fees are as follows:

MAIN REGISTRATION FEES

Type of Vehicle	Weight of Vehicle	Annual Fee (dollars)
Passenger vehicle	Each 100 lbs. or major fraction thereof up to 3,500 lbs.	0.645
	Plus: for each 100 lbs or major fraction thereof above 3,500 lbs.	0.97
Passenger vehicle – minimum fee		10.35
Passenger vehicle – maximum fee		56.06
Passenger vehicle propelled by electricity		12.94
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	2.88
Tractors (registered separately from semi-trailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.21
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	4.31
Semi-trailers – pre-1989 model year		23.00 per year
Semi-trailers – model year 1989 or later		69.00 for period of 5.5 years to 6.5 years
Bus – seating capacity 15 to 20 passengers		59.80

The main licensing fees are listed below:

MAIN LICENSING FEES	
Type of License	**Fee (dollars)**
Initial application	10.00
Learner's permit	2.50 – for each six months
Learner's permit – commercial driver's license	7.50 – for each six months
License renewal	2.50 – for each six months
License renewal – commercial driver's license	7.50 – for each six months
License renewal – chauffeur's driver's license	5.00 – for each six months

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' offices in most counties. The county clerks were historically compensated with a fixed portion of each fee, but, since 1997, they have received a percentage of gross receipts. County Clerks currently receive 12.7 percent of gross receipts. This totaled $22 million in 2005-06.

COUNTY CLERKS' RETENTION SCHEDULE	
Type of Retention	**Period**
Fixed portion of each fee.	Until December 31, 1996
8.1 percent of gross receipts.	From January 1, 1997
9.3 percent of gross receipts.	From July 1, 1998
12.7 percent of gross receipts.	From April 1, 1999

Fee Exemptions

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices, provided reciprocity is granted; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals. The revenue lost from these exemptions is minimal.

Significant Legislation

The recent significant statutory changes to motor vehicle fees are summarized below.

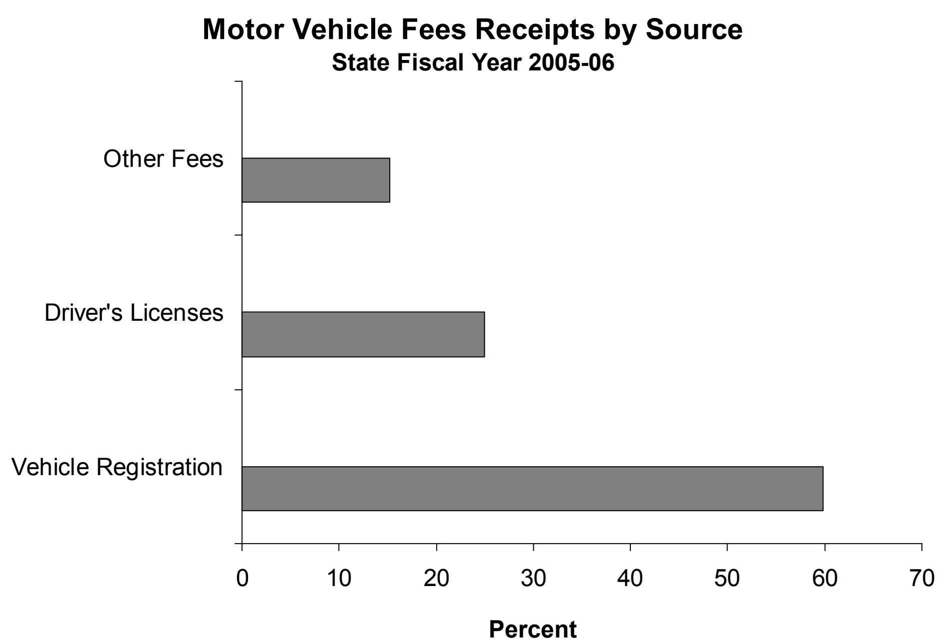
Subject	Description	Effective Date
Legislation Enacted in 1989		
Registrations	Biennialization of registration for vehicles weight less than 18,000 pounds.	June 16, 1989
Administrative Changes in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Added $2.50 to annual fee for registration and $0.50 for each six months to license or permit and earmarked both to Motorcycle Safety Fund.	January 1, 1998
Administrative Changes in 1997		
Photo image fee	Photo image fee raised to $3.00.	April 1, 1997
Legislation Enacted in 1998		
Registration fees	Fees on passenger vehicle registration reduced 25 percent.	July 1, 1998

Subject	Description	Effective Date
Administrative Changes in 2000		
License plates	Reissuance (January 2001-January 2003).	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000
Administrative Changes in 2003		
Photo Image Fee	Photo image fee raised to $5.00.	February 1, 2003
Legislation Enacted in 2005		
Title Fees	Title fees raised from $10 to $20 and $30.	October 1, 2005
Insurance Buyback	Expanded the insurance buyback program.	October 1, 2005
Dealer Registration	Dealer/Transporter registration fees raised 50%.	October 1, 2005
Temporary Registration	Dealer issued temporary registration fees raised from $2 to $5.	October 1, 2005
Salvaged Vehicle Inspection	Salvaged vehicle inspection fees raised from $100 to $150.	October 1, 2005

Fee Liability

The two main sources of motor vehicle fees are motor vehicle registrations and driver licensing.

Other fees relating to the operation of motor vehicles in the State yield relatively minor amounts of revenue. The chart below shows the shares of receipts from vehicle registrations, licenses, and other fees.



Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, these motor vehicle fees fluctuate little as a result of economic conditions. In general, collections change when fee or renewal schedules change.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor vehicle fees, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

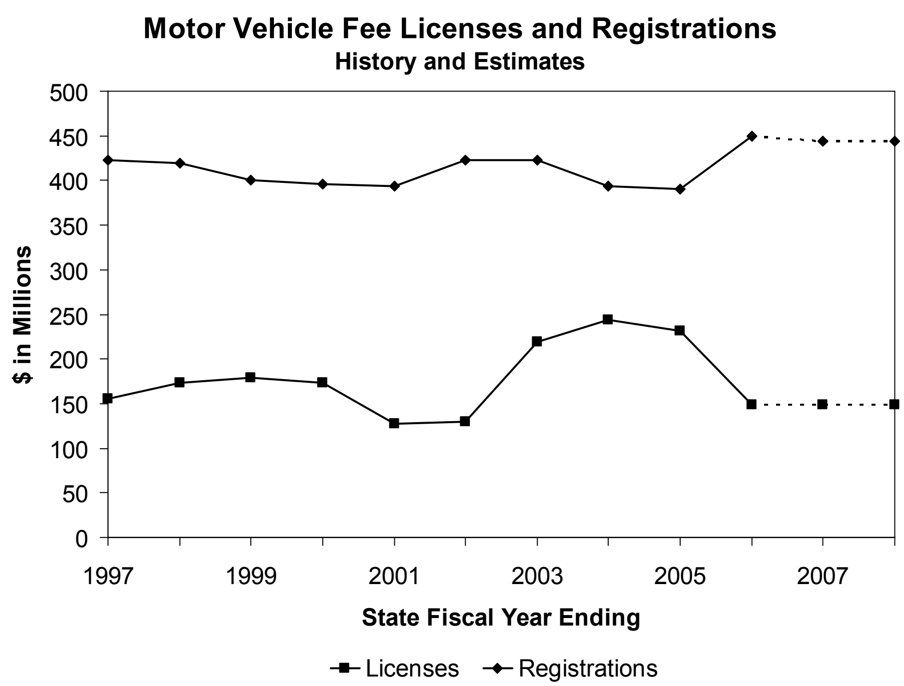
All Funds

2006-07 Estimates

All Funds collections to date are $625.1 million, an increase of $117.5 million, or 23.1 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $899.9 million, an increase of $114.5 million, or 14.6 percent above last year. The estimate for net receipts from registrations is $444 million, and the estimate for net receipts from licenses and other fees is $455.9 million.

The large increase in estimated receipts is due to increased revenue from legislation enacted with the 2005 Executive Budget becoming fully effective, partially offset by a decline in registration fees due to marginally lower registrations in the passenger car category and the declining impact of the extension of a driver's license renewal to eight years. This reflects the assumption that registrations remain relatively flat year to year, however, license renewals follow an eight year renewal pattern illustrated in the graph below. In addition, the impact of fee increases imposed with the 2005 Enacted Budget are fully incorporated in the 2006-07 base.



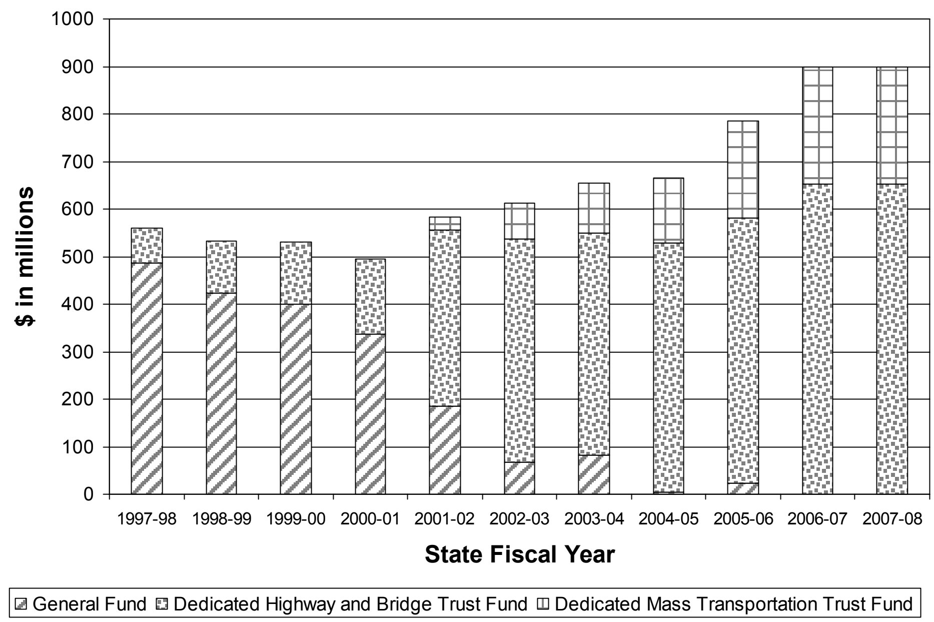
2007-08 Projections

All Funds receipts are projected to remain stable at $899.9 million.

General Fund

As a result of gradually shifting motor vehicle receipts to dedicated transportation related funds, there has been a reduction in General Fund receipts from this source since 1999. Beginning in 2006-07, no receipts from this source will be deposited in the General Fund. The following charts show the estimated fund distribution from all sources of motor vehicle fees in 2006-07 and 2007-08.

Motor Vehicle Fees Fund Distribution History



Other Funds

Since April 1, 1993, a percentage of registration fees have been earmarked to the Dedicated Highway and Bridge Trust Fund. The percentage dedicated to the fund has been adjusted several times.

Pursuant to Chapter 63, Laws of 2000, in 2001-02 an additional 23.5 percent of registration fees were earmarked to (1) the Dedicated Highway and Bridge Trust Fund and (2) the Dedicated Mass Transportation Trust Fund. Of this additional dedication, 63.0 percent is allocated to highways and 37.0 percent to mass transportation.

Also pursuant to Chapter 63, Laws of 2000, beginning in 2002-03, an additional 31.0 percent of registration fees are earmarked to the same funds and in the same proportion as stated above. Thus, the total percentage of additional registration fees dedicated pursuant to Chapter 63, Laws of 2000, amounts to 54.5 percent. Since previous legislation had already earmarked 45.5 percent, all registration fees are earmarked to the two trust funds.

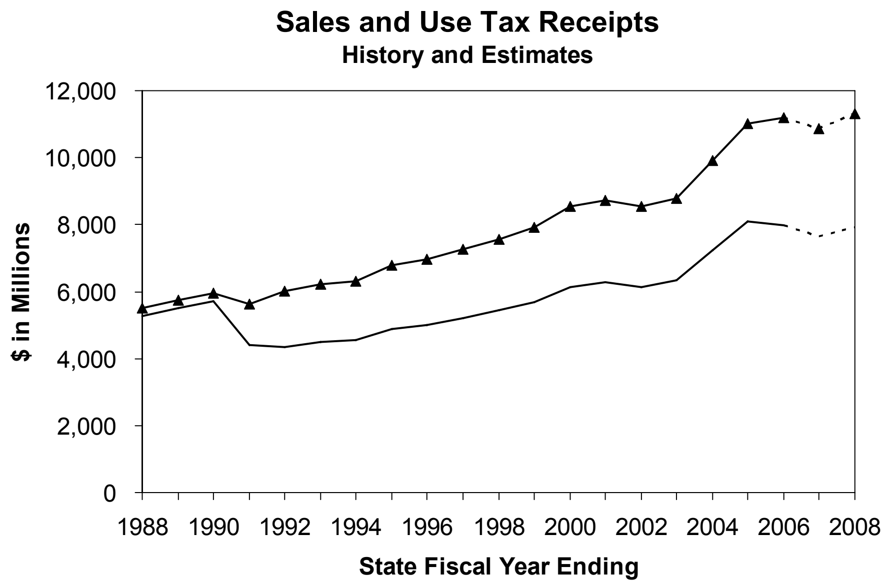
In State fiscal year 2006-07, the Dedicated Highway and Bridge Trust Fund will receive an estimated $651.6 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $206.3 million. Various dedicated DMV funds will receive small portions of the remaining $42.0 million.

In State fiscal year 2007-08, the Dedicated Highway and Bridge Trust Fund will receive a projected $651.6 million and the Dedicated Mass Transportation Trust Fund will receive a projected $206.3 million. Various dedicated DMV funds will receive small portions of the remaining $42.0 million.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	7,977.9	7,647.2	(330.7)	(4.1)	7,934.3	287.1	3.8
Other Funds	3,217.7	3,232.0	14.3	0.4	3,371.8	139.8	4.3
All Funds	11,195.6	10,879.3	(316.3)	(2.8)	11,306.2	426.9	3.9

Note: Totals may differ due to rounding.



SALES AND USE TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund	Special Revenue Funds[1]	Debt Service Funds[2]	All Funds Receipts
1997-98	5,466	24	5,442	306	1,814	7,562
1998-99	5,729	32	5,697	321	1,894	7,912
1999-2000	6,182	41	6,141	345	2,046	8,532
2000-01	6,311	39	6,272	368	2,092	8,732
2001-02	6,174	43	6,131	365	2,044	8,540
2002-03	6,390	62	6,328	362	2,106	8,796
2003-04	7,300	59	7,241	399	2,267	9,907
2004-05	8,143	49	8,094	429	2,493	11,016
2005-06	8,048	70	7,978	603	2,615	11,196
Estimated						
2006-07	7,717	70	7,647	694	2,539	10,879
2007-08	8,004	70	7,934	722	2,650	11,306

[1] Mass Transportation Operating Assistance Fund and The Public Safety and Security Account.
[2] Local Government Assistance Tax Fund.

PROPOSED LEGISLATION

Legislation submitted with this Budget would close a current loophole regarding Internet hotel room rentals. This loophole allows Internet travel companies to impose sales and use taxes on a portion of the sale instead of the full amount.

DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:

- tangible personal property (unless specifically exempt);
- certain gas, electricity, refrigeration and steam and telephone service;
- selected services;
- food and beverages sold by restaurants, taverns and caterers;
- hotel occupancy; and
- certain admission charges and dues.

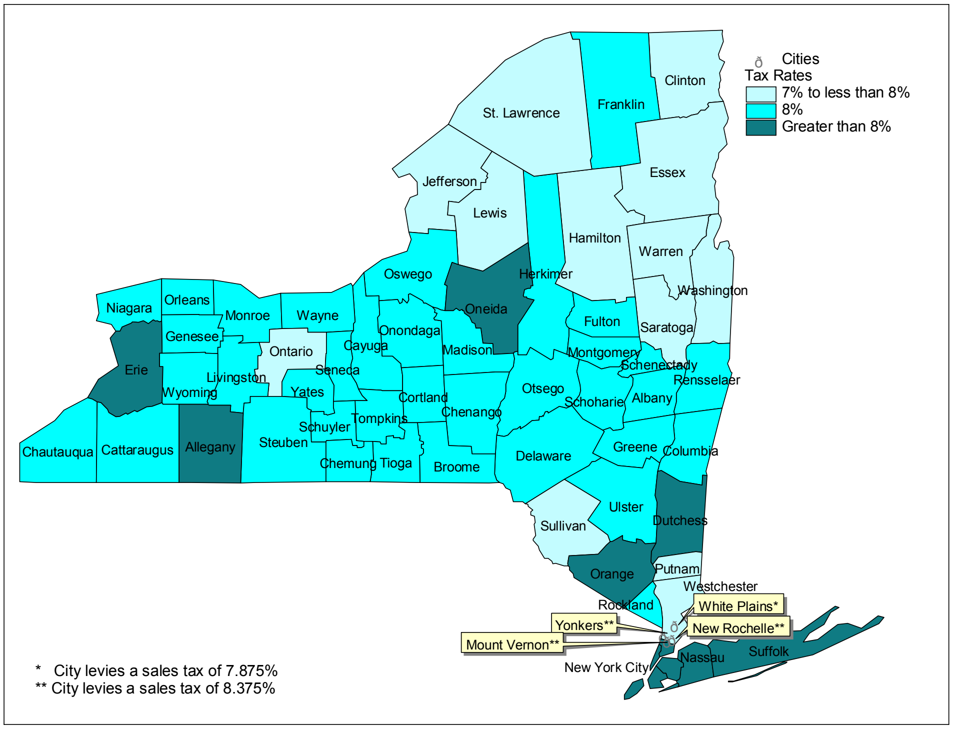
Examples of taxable services include installing or maintaining tangible personal property and protective and detective services. An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Tax Rate

The sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent rate in 1971 and to 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005. Effective June 1, 2006, the State sales tax rate on motor fuel and diesel motor fuel is capped at 8 cents per gallon.

Counties and cities are authorized to impose general sales tax rates up to 3 percent. Of the 57 counties and the 22 cities (including New York City) that impose the general sales tax, 51 counties and 4 cities received legislative authority to temporarily impose additional rates of tax above the statutory 3 percent general sales tax rate. About 90 percent of the State's population resides in an area where the tax rate equals or exceeds 8 percent. An additional 0.375 percent sales and use tax is imposed in the 12-county Metropolitan Commuter Transportation District (MCTD). The entire proceeds from the MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund (MTOAF).

Sales Tax Rates by County
Effective September 1, 2006



Administration

There are nearly 600,000 persons selling taxable property or services who are required to register with the Department of Taxation and Finance as sales tax vendors. Vendors generally are required to remit the tax quarterly. However, vendors who collect more than $300,000 of tax in one of the immediately preceding four quarters must remit the tax monthly by the twentieth of the month following the month of collection. Vendors collecting less than $3,000 yearly may elect to file annually, in March.

Vendors collecting more than $500,000 annually in State and local tax are required to remit the tax by electronic funds transfer (EFT). Collections for the first 22 days of the month must be remitted electronically or by certified check within three business days thereafter. Legislation enacted in 1992 started the EFT program, originally with the threshold for mandatory participation at $5 million in annual tax liability. Legislation in 1994, 1995, and 2002 reduced the threshold to $4 million, $1 million and to the current $500,000 threshold, respectively. It is estimated that 42 percent of the tax is remitted via EFT in the current fiscal year.

To reduce tax evasion, special provisions for remitting the sales tax on motor fuel and cigarettes have been enacted. Since 1985, the sales tax on gasoline has been remitted by the first importer of the fuel into New York. Prior to 2006, the tax was prepaid at a per gallon rate based on regional prices. Currently, the pre-payment is fixed at 14 cents for upstate and 14¾ cents in the MCTD region. Legislation enacted in 1995 required prepayment of the sales tax on cigarettes. The tax is prepaid by cigarette agents at the same time as payment for cigarette excise tax stamps.

Sales Tax Vendors and Taxable Sales

Filing Status	Number of Active Vendors*	Percent of Total Vendors	Taxable Sales and Purchases**	Percent of Total Sales
Monthly EFT	4,672	0.8	$136,491,884,333	61.7
Monthly Non-EFT	32,111	5.4	$49,619,001,077	22.4
Quarterly	272,496	46.0	$34,047,107,999	15.4
Annual	282,902	47.8	$1,021,071,249	0.5
Total	592,181	100.0	$221,179,064,658	100.0

* Vendors identified for quarter ending February 28, 2006.
** Selling period March 1, 2003 through February 28, 2004.
Source: New York State Department of Taxation and Finance.

Sales tax vendors are allowed to retain a portion of the sales tax that they have collected, both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. Effective September 1, 2006, the vendor allowance has been increased to 5 percent of tax liability, up to a maximum of $175 per quarter for returns filed on time. This cap will increase to $200 on March 1, 2007.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return contains a line on which taxpayers may enter the amount of use tax owed for the preceding calendar year. New York State collected $14.3 million from this program for 2005-06.

Tax Expenditures

A myriad of exemptions from the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for machinery and equipment used in production or in research and development. These particular exemptions prevent multiple taxation of the same property, a situation known as tax pyramiding. Additionally, items including food, medicines, medical supplies, residential energy, and clothing and shoes costing less than $110 have been excluded from the sales tax base to reduce the regressivity of the tax and promote economic competitiveness.[1]

Other exemptions, such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales, are also provided. Legal, medical and other professional services, sales of real property, and rental payments are also beyond the current scope of the sales tax. For further details, please see the Tax Expenditure Report.

[1] A tax on goods or services is defined to be regressive if lower-income persons pay a relatively greater share of their income on the taxed good or service than higher-income persons.

Significant Legislation

The significant statutory changes to this tax source since its inception are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1965		
Reimpose	Imposed a 2 percent sales and use tax on retail sales or use of tangible personal property.	August 1, 1965
Legislation Enacted in 1970		
Rate Increase	Increased the sales tax rate to 3 percent.	April 1, 1969
Legislation Enacted in 1971		
Rate Increase	Increased the sales tax rate to 4 percent.	June 1, 1971
Legislation Enacted in 1975		
March Prepayment	Imposed a March prepayment under the sales tax.	1975 and after
Legislation Enacted in 1977		
Fuel Use Tax	Added an eight percent sales tax component to the fuel use tax.	1977 and after
Legislation Enacted in 1978		
Residential Fuel	Provided phasing in exemption for residential energy use. It was fully exempted on October 1, 1980.	January 1, 1979
Fuel Use Tax	Reduced the sales tax component from eight to seven percent.	1978 and after
Legislation Enacted in 1981		
MTA	Imposed MTA sales tax at 0.25 percent.	1981 and after
Legislation Enacted in 1985		
Gasoline Tax Payment	Required sales tax on gasoline pre-paid upon importation of fuel into the State. (The same requirement applied to diesel fuel in 1988.)	June 1, 1985
MTA	The Mass Transportation and Operating Assistance Fund (MTOAF) was created. The rate was one-quarter of one percent.	September 1, 1985
Legislation Enacted in 1989		
Base Broadening	Broadened the sales tax base to impose tax on parking, protective & detective services, building maintenance, interior design services, auto leasing, and 900 numbers.	1989 and after
Legislation Enacted in 1990		
Cable Television	Exempted cable television service from the tax.	September 1, 1990
LGAC	Created the Local Government Assistance Corporation (LGAC). One-fourth of State four-cent sales tax collections were earmarked to the LGAC.	1990 and after
Legislation Enacted in 1991		
March prepayment	Ended March prepayment.	1993 and after
Legislation Enacted in 1992		
EFTs	Established Electric funds transfer (EFT) for large vendors.	1992 and after
Alternative Fuel Vehicles	The additional cost of new alternative fuel vehicles above the sales price of comparable gasoline or diesel powered vehicles is exempt from tax. Expired February 29, 2005.	September 1, 1992
Legislation Enacted in 1993		
Information & Entertainment	Tax imposed on information and entertainment services (5%)	1993 and after
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1,1994

Subject	Description	Effective Date
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1, 1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under $100 for the one-week periods of September 1-7, 1997, and September 1-7, 1998.	September 1-7, 1997 September 1-7, 1998
	Permanently exempted clothing priced under $100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected, capped at $150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to $500 from $100.	September 1-7, 1998
	Exempted clothing and footwear priced under $500 during the January 17-24, 1999 period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from $100 to $110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students that are required for their courses.	June 1, 1998
Computer Hardware	Exempted computer system hardware used to design and develop computer software for sale.	June 1, 1998
Internet Access Service	Codified State policy of exempting charges for Internet access services.	February 1, 1997
Materialmen	Allowed certain materialmen (i.e., building materials suppliers) to remit sales tax returns on either a cash or an accrual basis.	June 1, 1999
Telephone Central Office Equipment	Expanded existing exemption for telephone central office equipment to include such equipment or apparatus used in amplifying, receiving, processing, transmitting, and re-transmitting telephone signals.	September 1, 1998
Alternate Fuel Vehicle Refueling Equipment	Receipts from the sale and installation of alternative fuel vehicle refueling equipment is exempt from tax. Expired February 29, 2005.	March 1, 1998
Legislation Enacted in 1999		
Clothing and Footwear	Changed the effective date of the permanent exemption for clothing and footwear priced under $110 from December 1, 1999, to March 1, 2000.	March 1, 2000
	Temporarily exempted clothing and footwear priced under $500 for the periods of September 1-7, 1999, and January 15-21, 2000.	September 1-7, 1999; January 15-21, 2000
Computer Hardware	Provided an exemption for computer system hardware used to design and develop Internet web sites for sale.	March 1, 2001

Subject	Description	Effective Date
Farm Production	Expanded the farm production exemption to include fencing and certain building materials. Converted the refund for tax paid on motor vehicles to an exemption.	March 1, 2001
Telecommunications Equipment	Exempted machinery and equipment used to upgrade cable television systems to provide telecommunications services for sale and to provide Internet access service for sale.	March 1, 2001
Theater	Exempted certain tangible personal property and services used in the production of live dramatic or musical arts performances.	March 1, 2001
Legislation Enacted in 2000		
Farm Production	Exempted property, building materials and utility services used in farm production. Expanded definition of farms to include commercial horse boarding operations.	September 1, 2000
Internet Data Centers	Exempted computer hardware and software purchased by Internet Data Centers (web site hosting facilities) operating in New York. Included required equipment such as air conditioning systems, power systems, raised flooring, cabling, and the services related to the exempted property.	September 1, 2000
Vending Machines	Exempted food and drink sold through a vending machine that costs 75 cents or less.	September 1, 2000
Telecommunications Equipment and Communications Services	Exempted property used to provide telecommunications services, Internet access services, or a combination thereof. Also, exempted certain services to the exempted property, such as installation and maintenance. Provided a three-year exemption for machinery and equipment used to upgrade cable television systems to a digital-based technology.	September 1, 2000
Radio and Television Broadcasting	Exempted machinery and equipment (including parts, tools and supplies) and certain services used for production and transmission of live or recorded programs. A broadcaster includes Federal communications licensed radio and television stations, television networks, and cable television networks.	September 1, 2000
Pollution Abatement	Exempted manufacturing and industrial pollution control equipment and machinery.	March 1, 2001
Transmission and Distribution of Electricity and Gas	Phased out over three years the sales tax on the separately purchased transmission of electricity and gas.	September 1, 2000
Empire Zones	Exempted property and services used or consumed by qualified businesses within Empire Zones.	March 1, 2001
Purchase of Gas or Electricity from Outside of New York	Imposed a compensating use tax on purchases of gas or electricity from vendors located outside of New York.	June 1, 2000
Legislation Enacted in 2001		
Empire Zones	Added eight new Empire Zones, for a total of 66 zones throughout the State. Four of the eight new Empire Zones became effective immediately.	October 29, 2001
Legislation Enacted in 2002		
Temporary Exemption in Liberty Zone	Temporarily exempted most tangible personal property priced under $500 sold in the Liberty and Resurgence Zones in New York City for the periods of June 9-11, July 9-11 and August 20-22, 2002.	June 1, 2002
EFT Threshold Change	Lowered the Electronic Fund Transfer threshold from $1 million to $500,000.	September 1, 2002
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003
Temporary repeal of clothing exemption	Temporarily repealed the exemption on items of clothing and footwear priced under $110 and created two clothing exemption weeks at the same $110 threshold.	June 1, 2003
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003

Subject	Description	Effective Date
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal property valued at more than $300,000 to New York locations to register as sales tax vendors.	August 20, 2004
Legislation Enacted in 2005		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to March 31, 2007, for the temporary repeal of the exemption on items of clothing and footwear priced under $110 and created two exemption weeks at the same $110 threshold. If the 2006-07 Executive Budget included tax cut proposals, the year-round exemption for such items takes effect on April 1, 2006.	April 12, 2005
Manhattan Parking Vendors	Made permanent the sales tax enforcement provisions relating to parking vendors in Manhattan.	April 12, 2005
Metropolitan Commuter Transportation District Sales Tax Rate	Increased the sales and use tax rate in the Metropolitan Commuter Transportation District (MTCD) from 0.25 percent to 0.375 percent.	June 1, 2005
Sales Tax Medicaid Intercept	Provided for the State to calculate an optional local “Medicaid amount”, and for such amount to be intercepted from local sales tax distributions and directed to the State.	April 12, 2005
Amusement Park Admissions	Extended until October 1, 2006, the 75 percent sales tax exemption of the amount charged for admission to a qualifying place of amusement.	April 12, 2005
Lower Manhattan Office Space	Provided sales tax exemption for property used to furnish or equip lower Manhattan office space.	August 30, 2005
Residential Solar Energy	Exempted the sale and installation of residential solar energy systems equipment from sales and use taxes.	July 26, 2005
In Bay Car Washes	Exempted coin-operated or fully automated car washing, waxing or vacuuming from sales and use taxes.	December 1, 2005
Marine Terminal Facilities	Exempted certain machinery and equipment for marine container terminals in New York City from State sales and use taxes.	December 1, 2005
Waste Transfer Stations	Exempted certain waste transfer services from State and local sales and use taxes.	December 1, 2005
State Charter Credit Unions	Exempted State charter credit unions from sales and use taxes.	March 1, 2006
Direct Shipment of Wine	Provided for certain limited direct interstate shipments of wine.	August 11, 2005
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006
Legislation Enacted in 2006		
Clothing	Permanently exempted clothing and footwear priced under $110.	April 1, 2006
Vendor Allowance	Increased vendor credit from 3.5 percent to 5 percent and increased the cap from $150 to $175. The cap will increase to $200 on March 1, 2007.	September 1, 2006
Amusement Parks	Exempted admissions to amusement parks permanently.	October 1, 2006
Motor Fuel Cap	Limits the amount of sales tax imposed on motor fuels to 8 cents per gallon. Localities imposing a sales tax have the option either to continue to use the percentage rate method or to change to a cents-per-gallon method of computing sales tax. The localities also have options to cap the tax amount at $2 or $3 per gallon under the cents-per-gallon method. Effective December 1, 2006, only 12 counties and 2 cities are imposing the $2 cap on motor fuel and diesel motor fuel.	June 1, 2006

Subject	Description	Effective Date
Alternative Fuels	A full exemption for E85, COG and Hydrogen and a partial exemption for B20 from September 1, 2006 through September 1, 2011.	September 1, 2006
Cabaret	Exempted admissions to cabaret.	December 1, 2006
Credit Card	Allowed refund of sales tax paid on certain credit card accounts.	January 1, 2007

TAX LIABILITY

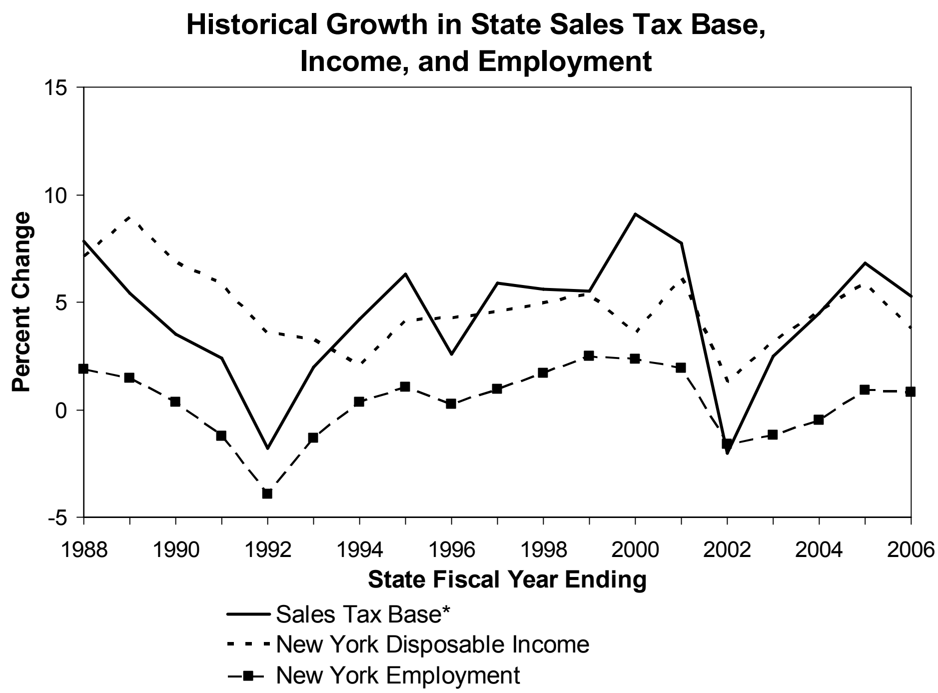
The sales and compensating use tax, which accounted for about 21 percent of 2005-06 All Funds tax receipts, is the second largest State tax revenue source (the personal income tax is the largest).

In the long run, sales tax receipts are a function of changes in the tax rate and economic activity, as measured by such factors as disposable income and employment. Short-run fluctuations in receipts can result from rapid changes in fuel prices, auto sales, and home sales. The following table and graphs show the growth rate of major economic factors affecting the sales tax. For a more detailed discussion of the methods and models used to develop estimates and projections for the sales and use tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 1998-99 TO 2007-08
Percent Change

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	Estimated 2006-07	Projected 2007-08
Consumption of Taxable Goods in NY	6.4	8.7	6.1	2.5	3.5	4.5	6.2	6.9	5.6	3.6
Consumption of Taxable Services in NY	7.0	7.2	5.8	2.0	2.0	3.6	5.2	4.4	5.3	5.2
NY Employment	2.5	2.3	1.9	(1.6)	(1.2)	(0.5)	0.9	0.8	0.7	0.7
NY Disposable Income	5.4	3.6	6.2	1.3	3.2	4.6	5.9	3.8	5.9	5.5
NY Nominal Value of New Auto and Light Truck Sales	13.5	13.0	(5.3)	8.2	4.2	2.9	(1.6)	0.0	(2.1)	2.2
Sales Tax Base	5.5	9.1	7.8	(2.0)	2.5	4.5	6.8	5.3	4.0	4.1

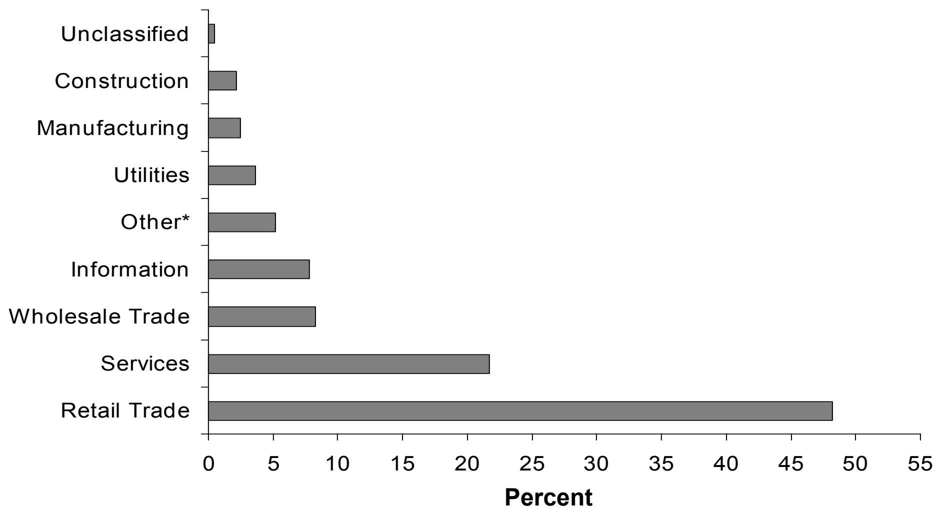
* Based on Division of Budget estimates.



* Based on Division of Budget estimates.

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see Tax Expenditure Report), over 45 percent of total taxable sales and purchases subject to the sales and use tax are accounted for by the retail trade industry. This includes, for example, automobile dealers and general merchandise stores. The service industry, including accommodations and food services, and administrative services, at 21.2 percent of the statewide total, accounts for the next largest share of taxable sales and purchases.

Industry Shares of Taxable Sales and Purchases
March 2002 to February 2003



*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
Source: New York State Department of Taxation and Finance.

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This will include, for example, taxable items purchased via mail order or on the Internet if the vendor has no taxable nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance, but low compliance for certain transactions remains an ongoing concern.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $8,228.3 million, a decrease of $254.6 million, or 3.0 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $10,879.3 million, a decrease of $316.3 million, or 2.8 percent below last year.

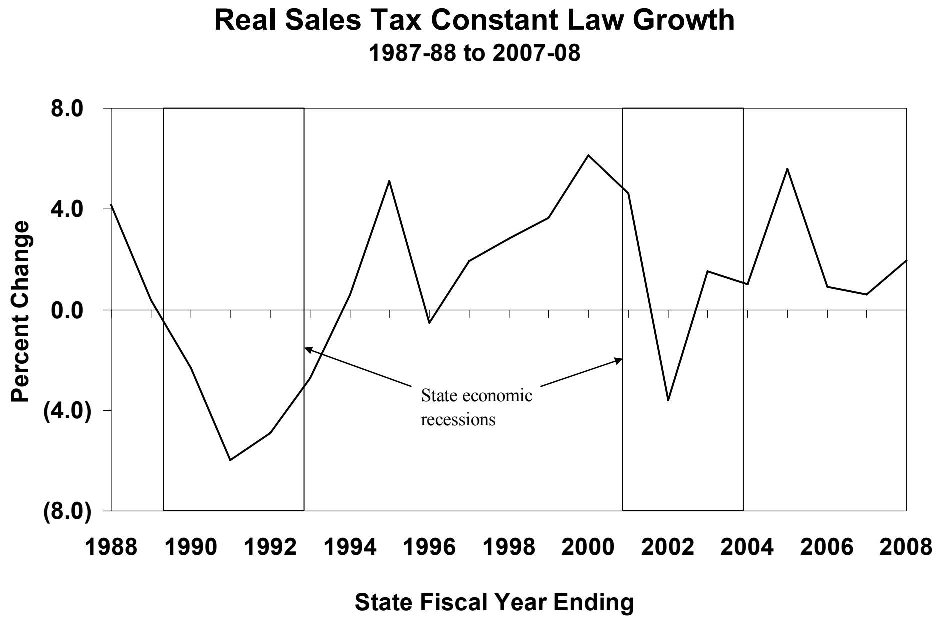
Clothing and footwear was permanently exempted from State sales tax on April 1, 2006. This action reduced revenues by approximately $700 million. The $2 sales tax cap on motor fuel and diesel motor fuel is estimated to reduce revenues by $84 million in 2006-07. In addition, the State reduced receipts by an estimated $27 million by increasing the vendor allowance, exempting cabaret admissions, allowing for a refund of credit card bad debt, eliminating or partially eliminating sales tax on alternative fuels and making permanent the temporary amusement park tax provisions.

2007-08 Projections

All Funds receipts are projected to be $11,306.2 million, an increase of $426.9 million, or 3.9 percent above 2006-07.

Disposable income is expected to grow 5.5 percent and employment to grow 0.7 percent in 2007-08. Taken together, these factors help explain a projected growth in the sales tax base of 4.1 percent. The base of the tax includes tax collections from the implementation of the statute governing sales to non-Native Americans on New York reservations. The enforcement of the statute is expected to increase 2007-08 receipts by $29 million. The increase in the vendor credit allowance will cost the State $54 million. The revenue projection also reflects the proposed legislation that would ensure the sales tax is paid on the full amount paid for hotel occupancy by Internet travel companies. This proposal is expected to increase 2007-08 receipts by $15 million.

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the sales tax estimates. Unexpected slowdowns in income, employment, auto sales, and the associated consumption of taxable goods impact the level of taxable sales.



General Fund

Direct deposits to the General Fund for 2006-07 are estimated to be $7,647.2 million, a decrease of $330.7 million, or 4.1 percent below 2005-06 receipts. General Fund receipts in 2007-08 are projected to be $7,934.3 million, a 3.8 percent increase from 2006-07.

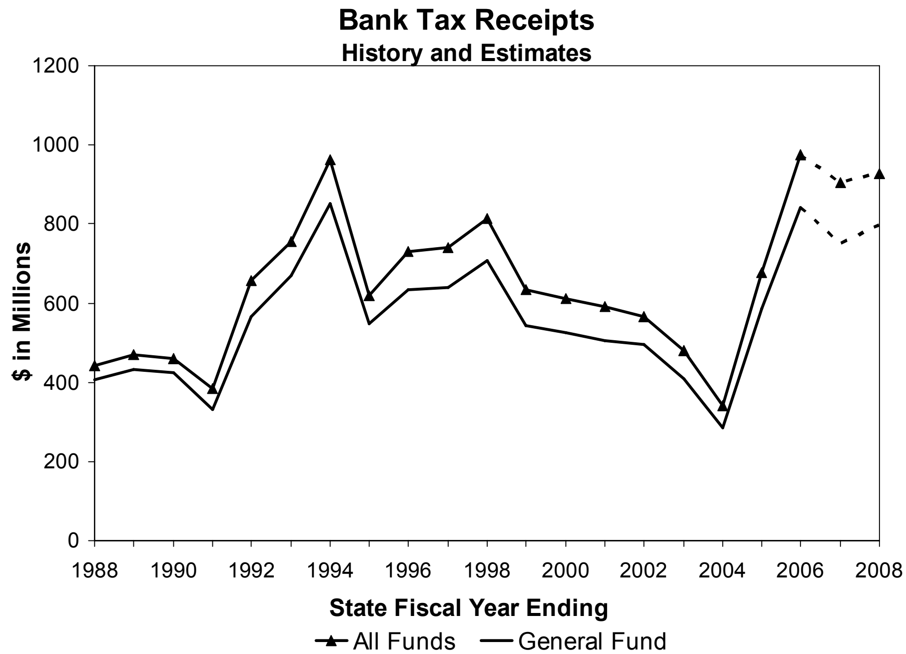
Other Funds

The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF were $2,614.6 million in 2005-06 and are estimated at $2,538.5 million in 2006-07, and $2,650.3 million in 2007-08. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund. Of the deposits to LGATF, $2,180.2 million and $2,276.9 million are scheduled to be transferred back to the General Fund in 2006-07 and 2007-08, respectively.

The Mass Transportation Operating Assistance Fund (MTOAF) was created in 1981 to finance State public transportation needs. MTOAF derives part of its revenues from the 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF, which received $603.1 million in sales and use tax receipts in 2005-06, will receive an estimated $693.5 million in 2006-07 and $721.5 million in 2007-08.

BANK TAX

BANK TAX (millions of dollars)	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	841.8	750.0	(91.8)	(10.9)	797.0	47.0	6.3
Other Funds	132.5	155.0	22.5	17.0	129.0	(26.0)	(16.8)
All Funds	974.3	905.0	(69.3)	(7.1)	926.0	21.0	2.3



BANK TAX BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1997-98	766	58	708	113	8	105	813
1998-99	624	80	544	102	11	91	635
1999-2000	598	72	526	94	9	85	611
2000-01	598	92	506	97	11	86	591
2001-02	565	69	496	80	10	70	566
2002-03	523	114	409	84	12	72	481
2003-04	428	142	286	71	15	56	342
2004-05	662	75	587	100	11	89	676
2005-06	941	99	842	150	17	133	974
Estimated							
2006-07	827	77	750	160	5	155	905
2007-08(Current Law)	735	80	655	117	10	107	762
2007-08 (Proposed Law)	877	80	797	139	10	129	926

[1]Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- Conform State bank tax bad debt rules to Federal rules and the practices of other States by allowing certain taxpayers to deduct only bad debts that have actually been written-off (the "direct write-off" method);
- Close a loophole and conform to Federal rules by eliminating the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that the parent entity of the REIT or RIC pays tax on the income earned since the REIT or RIC itself does not;
- Conform the treatment of expenses related to subsidiary capital under the bank tax to the principles applied under the corporate franchise tax by requiring the add-back of expenses related to income from subsidiary capital and government obligations. In addition, to ensure that a bank's employment presence is properly reflected in the calculation of tax liability, the reduction in the wage factor portion of the apportionment formula will be eliminated;
- Close a loophole by preventing banks that use subsidiaries that are grandfathered corporate franchise taxpayers under 1985 provisions to shelter income by revoking the election to be a corporate franchise taxpayer for companies that have become inactive, cease to file a corporate tax return, have a change in ownership, change their business purpose, or are a party to substantial inter-corporate transactions; and
- Extend certain Gramm-Leach Bliley and related bank tax provisions for two years.

DESCRIPTION

Tax Base and Rate

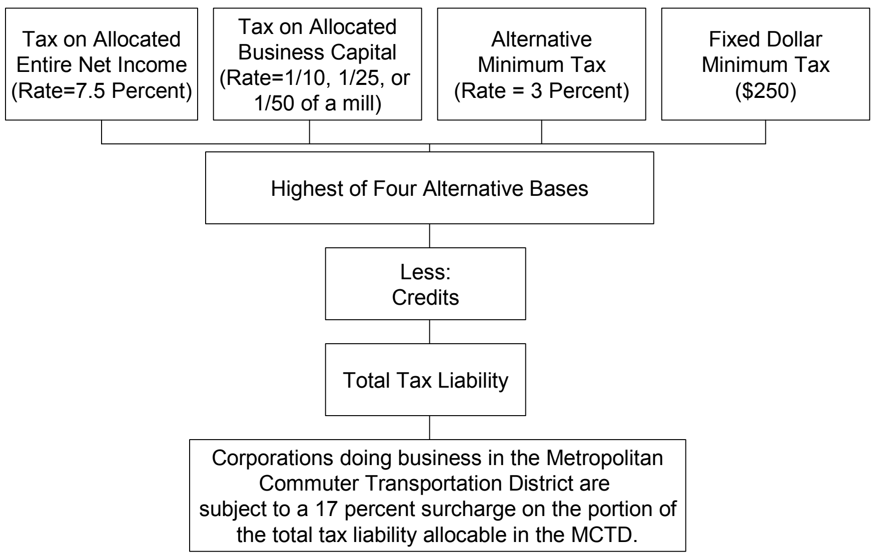
The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. Banking corporations are classified as commercial banks, savings banks, savings and loan associations, foreign banks and alien banks. Foreign banks are those formed under the laws of another state, whereas alien banks consist of banks formed under the laws of another country. Article 32 bank tax liability is computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.5 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.

- An assets base imposed at the rate of 1/10, 1/25, or 1/50 of a mill of taxable assets allocated to New York. The applicable rate depends on the size of the bank's net worth relative to assets and mortgages as a percent of total assets.
- A fixed dollar minimum tax of $250.

Banks conducting business in the Metropolitan Commuter Transportation District (MCTD) are also subject to a 17 percent surcharge on the portion of the total tax liability allocated in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

Bank Tax Article 32 – Current Law



Administration

Banks that reasonably expect their tax liability to exceed $1,000 for the current year are required to make quarterly tax payments of equal installments on an estimated basis in March, June, September, and December. A final payment is made in March.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools to enhance tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Reformed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limiting the usefulness of the ITC.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Subsidiary Capital	Specified subsidiary capital taxation rules to allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	January 1, 1994
Legislation Enacted in 1997		
Net Operating Loss	Allowed banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	January 1, 2001
Legislation Enacted in 1998		
Investment Tax Credit	Allowed bank taxpayers that are brokers/dealers in securities to claim a credit for equipment used in broker/dealer activities and in activities connected with broker/dealer operations.	October 1, 1998
Legislation Enacted in 1999		
Rate Reduction — ENI	Reduced the ENI tax rate from 9 percent to 7.5 percent in phases over three years.	June 30, 2000
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual “tax free” zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer’s liability to zero.	January 1, 2001
Legislation Enacted in 2001		
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunset for tax years beginning on or after January 1, 2003.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year’s liability for those corporate taxpayers whose prior year’s liability exceeds $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations.	Various

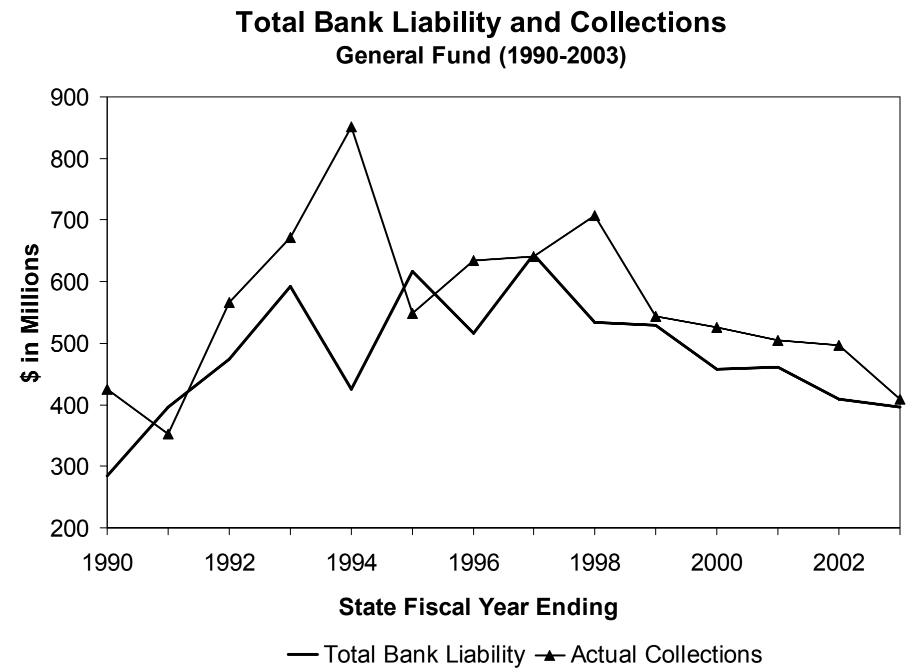
Subject	Description	Effective Date
Legislation Enacted in 2003		
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2003. Sunset for tax years beginning on or after January 1, 2005.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three refundable tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Bank Tax Extension	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal *Gramm-Leach Bliley Act.*	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factor.	These provisions will be phased in over a three-year period starting in tax year 2006, and be fully effective for tax years beginning on or after January 1, 2008
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of $750 million or more and creates 500 new jobs is deemed a “new business,” qualifying the taxpayer for a 50 percent refund of its EZ Investment Tax Credits and EZ Employment Incentive Credits. Also authorized such taxpayers to select their program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the personal income tax surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003 (note that the differential had already been suspended - effective date reflects first instance of non-imposition)
Bank Tax Extension	Extended for two years, until January 1, 2008, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2008, the provisions relating to the Federal *Gramm-Leach Bliley Act.*	January 1, 2006

TAX LIABILITY

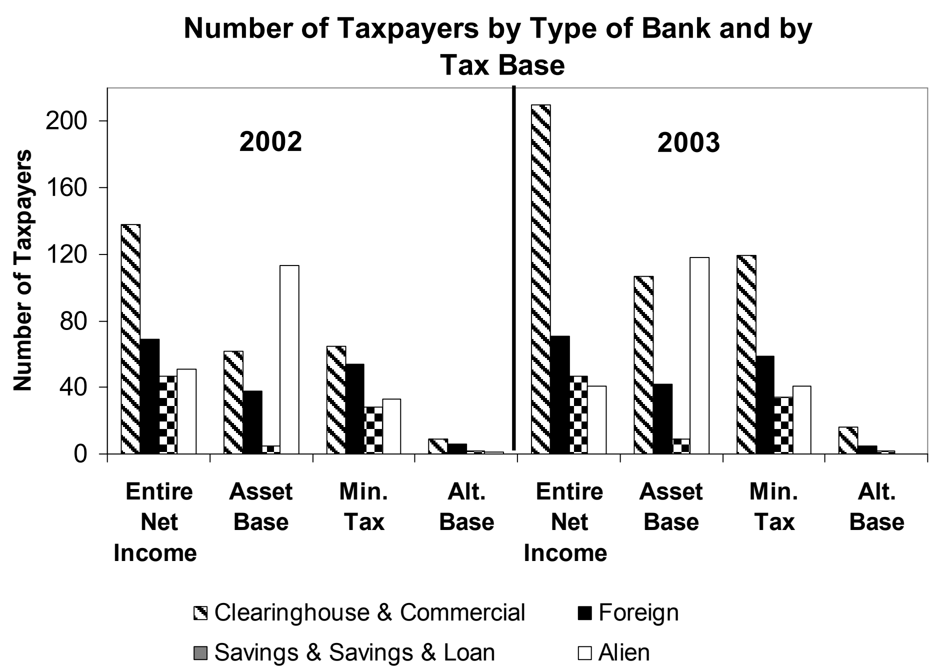
The Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent tax data available on all banks filing under Article 32. The most current liability information is for the 2003 tax year. The annual study of bank tax returns indicates that 744 taxpayers filed tax returns as banking corporations in 2003, a 3.2 percent increase from the previous year.

The link between underlying bank tax liability and collections in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits, and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. Collections include a mandatory first installment payment that is paid in March and is based on 25 percent of the prior year's liability. In addition, banks are required to make estimated payments, based on projected liability for the current tax year, in June, September, and December. A final payment is made in March. Taxpayers may make periodic adjustments to these payments after the close of the tax year as their actual liability for a given tax year becomes more definite. Tax liability in the current year is based on estimated performance for that year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. The Tax Law grants taxpayers extensions that allow the filing of returns many months after the end of their tax year.

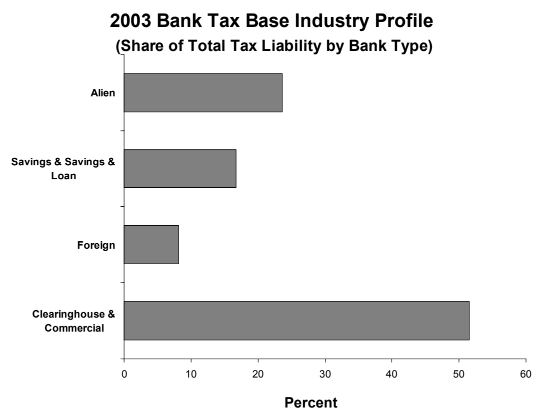
The accompanying graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments needed over the course of a year. This is especially true if business or economic conditions change. The graph illustrates the significant volatility in the underlying relationship between payments and liability, which is further compounded by the potential difference between a taxpayer's tax year and the State fiscal year.

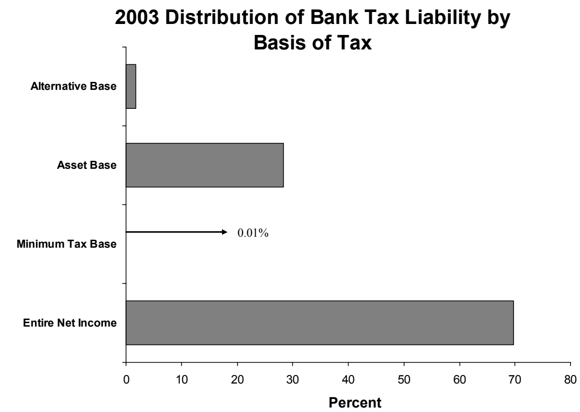


Between 2002 and 2003 (2003 representing the latest year for which complete tax liability data are available), total General Fund tax liability decreased by roughly 3 percent, from $409 million to $396 million. The number of taxpayers increased by 3.2 percent, with the majority of the increase occurring in clearinghouse and commercial banks. The following graph illustrates that, consistent with the overall increase in the number of taxpayers, the number of commercial banks paying under the entire net income tax base increased by 52.2 percent, from 2002 to 2003.



The following charts show that clearinghouse and commercial banking institutions accounted for 51.5 percent of total tax liability in 2003, and alien banking institutions accounted for 23.6 percent of total liability, while foreign banking institutions and savings banks and savings and loan institutions together accounted for the remaining 24.9 percent of total liability. Additionally, payments under the ENI base comprised about 70 percent of total tax liability.





For a more detailed discussion of the methods and models used to develop estimates and projections for the bank tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

Bank Tax
(millions of dollars)

	Actual 2005-06	Estimated 2006-07	Change	Percent Change	Projected 2007-08	Change	Percent Change
General Fund							
Non-Audit Receipts	541	553	12	2.1	560	7	1.3
Audit Receipts	300	197	(103)	(34.4)	95	(102)	(51.8)
Executive Budget Initiatives	0	0	0	--	142	142	--
Total	**842**	**750**	**(92)**	**(10.9)**	**797**	**47**	**6.3**
Other Funds							
Non-Audit Receipts	103	110	7	6.7	95	(15)	(13.6)
Audit Receipts	29	45	16	53.1	12	(33)	(73.3)
Executive Budget Initiatives	0	0	0	--	22	22	--
Total	**132**	**155**	**23**	**17.0**	**129**	**(26)**	**(16.8)**
All Funds							
Non-Audit Receipts	645	663	18	2.9	655	(8)	(1.2)
Audit Receipts	330	242	(88)	(26.6)	107	(135)	(55.8)
Executive Budget Initiatives	0	0	0	--	164	164	--
Total	**974**	**905**	**(69)**	**(7.1)**	**926**	**21**	**2.3**

All Funds

2006-07 Estimates

All Funds preliminary collections through December of $775 million are $99 million, or nearly 15 percent, above the comparable period in the prior fiscal year. The year-to-date growth is primarily attributable to an increase in audit receipts over the prior year of $70 million, or almost 48 percent, and growth in non-audit receipts of 4.6 percent. The growth in non-audit receipts reflects refunds that are below historical trends. (See the “Audits and Compliance” section for a more detailed discussion of audit receipts).

All Funds receipts for 2006-07 are estimated to be $905 million, a decrease of $69.3 million, or 7.1 percent from the prior year. The decline is attributable to a 26.6 percent, decline in audits receipts from 2005-06, a year which included about $200 million in audit receipts from the Department of Taxation and Finance’s Voluntary Compliance Initiative (VCI), partially offset by a modest increase in non-audit receipts of 2.9 percent. Although All Funds receipts from audits are projected to decline from $330 million in 2005-06 to $242 million in 2006-07, audit receipts for 2006-07 remain significantly higher than historical trends.

2007-08 Projections

All Funds receipts for 2007-08 are projected to increase by 2.3 percent, $21 million, to $926 million. The overall increase reflects the net impact of Executive Budget initiatives described above that would close loopholes by conforming the bank tax to Federal rules and the practices of other states ($164 million), a decline in audit receipts from the prior year ($135 million), and a small estimated decline in non-audit receipts. Although projected audit receipts for 2007-08 are below 2005-06 and 2006-07 levels, they are well above recent year averages and reflect new budgetary resources for the Department of Taxation and Finance that would increase audit receipts through investments in technology and additional compliance agents.

General Fund

General Fund collections for 2006-07 reflect year-to-date trends and are estimated to decline by $91.8 million to $750 million. The almost 11 percent decrease is attributable to audit receipts decreasing by 34 percent from last year’s levels, but remaining well above historical levels, offset by modest growth in non-audit receipts of 2.1 percent. Non-audit receipts reflect flat growth in 2006 estimated payments from calendar year filers, refunds that are below historical trends and calendar year first installment payments for 2007 that are based upon 2006 liabilities and are projected to grow by about 8 percent.

General Fund collections for 2007-08 are projected to increase $47 million, or 6.3 percent, to $797 million. The increase reflects the impact of Executive Budget initiatives described above, and almost flat growth in non-audit receipts, offset by a $102 million decline in audit receipts from the prior year.

Other Funds

Bank tax receipts from surcharges deposited to MTOAF generally reflect the All Funds and General Fund trends described above. MTOAF bank tax receipts for 2006-07 reflect year-to-date trends and are estimated at $155 million, including $45 million in audit receipts. Surcharge receipts for 2007-08 of $129 million reflect the trends described above, and include $12 million in audit receipts and $22 million from Executive Budget initiatives.

CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	2,664.6	3,545.0	880.4	33.0	3,768.0	223.0	6.3
Other Funds	388.4	525.0	136.6	35.2	497.0	(28.0)	(5.3)
All Funds	3,053.0	4,070.0	1,017.0	33.3	4,265.0	195.0	4.8

Note: Totals may differ due to rounding.

CORPORATION FRANCHISE TAX BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1997-98	2,381	300	2,081	268	27	241	2,322
1998-99	2,479	429	2,050	243	30	213	2,263
1999-2000	2,422	483	1,939	272	43	229	2,168
2000-01	2,817	482	2,335	316	21	295	2,630
2001-02	2,012	497	1,515	236	48	188	1,703
2002-03	1,940	533	1,407	247	42	205	1,612
2003-04	2,005	523	1,482	266	48	218	1,700
2004-05	2,285	427	1,858	293	40	253	2,111
2005-06	3,070	405	2,665	415	27	388	3,053
Estimated							
2006-07	3,900	355	3,545	535	10	525	4,070
2007-08							
Current Law	3,931	405	3,526	472	15	457	3,983
Proposed Law	4,173	405	3,768	512	15	497	4,265

[1] Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- continue to deter the use of tax shelters to avoid tax by making permanent the authority provided to the Department of Taxation and Finance in 2005 to require the reporting and disclosure of Federal and New York reportable and listed transactions;
- require corporations that conduct substantial inter-corporate transactions with one another to file a combined, rather than separate, corporate franchise tax return;
- conform to the practices of 18 other states that have decoupled from Federal law and require taxpayers to add back income from qualified production activities for New York tax purposes;
- close a loophole and conform to Federal rules by eliminating the deduction for certain subsidiary dividends received by a parent company from a Real Estate Investment Trust (REIT) or Regulated Investment Company (RIC) to ensure that either the REIT or RIC or its shareholders pay tax on the income earned by the REIT or RIC; and
- increase the aggregate amount of low income housing tax credits the Commissioner of Housing and Community Renewal may allocate by $4 million annually, and make the annual increase permanent.

DESCRIPTION

Tax Base and Rate

The corporation franchise tax is levied by Article 9-A of the Tax Law on domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. The corporation franchise tax is made up of business entities classified as either C corporations or S corporations.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.5 percent. Qualifying small businesses with an ENI of $290,000 or less are subject to a reduced rate.
- An alternative minimum tax (AMT) base imposed at a rate of 2.5 percent of ENI (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications.
- A capital base, imposed at a rate of 0.178 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is $1 million.

- A fixed dollar minimum tax, which is based on a taxpayer's payroll as shown in the following schedule. Payroll amounts include the salaries of general executive officers.

Gross Payroll	**$250,000 or less**	**$250,001 – $500,000**	**$500,001 – $1,000,000**	**$1,000,001 – $6,250,000**	**$6,250,001 or more**
Fixed Dollar Minimum Tax	$100	$225	$325	$425	$1,500

Taxpayers that have a gross payroll, total receipts, and average value of gross assets which are each $1,000 or less are subject to an $800 tax.

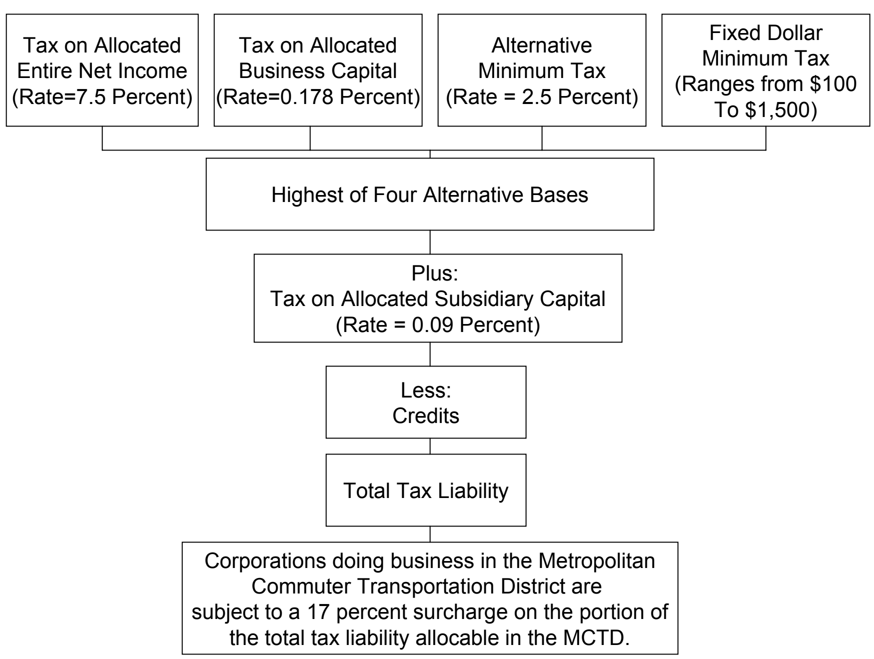
In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

S corporations are subject to the fixed dollar minimum tax imposed at the rates shown in the table above.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997 through June 30, 1998, and allocable in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

The following flow chart shows how Article 9-A tax liability is computed under the four alternative bases.

Article 9-A Current Law



Administration

Corporations that reasonably expect their tax liability to exceed $1,000 for the current year are required to make quarterly tax payments of equal installments on an estimated basis in March, June, September, and December. A final payment is made in March.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provisions reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and the distribution of these benefits varies widely among firms. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Empire Zone credits, and the preferential tax rates for qualifying small business corporations. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1981		
Metropolitan Transportation Business Tax Surcharge	Imposed on business taxpayers a temporary 17 percent surcharge on tax liability allocated to the Metropolitan Commuter Transportation District (MCTD). Collections are dedicated in support of the Metropolitan Transportation Authority.	January 1, 1982
Legislation Enacted in 1985		
Omnibus Tax Equity and Enforcement Act of 1985	Provided several new enforcement tools to enhance tax compliance, including new penalties for tax evaders, enhancement of existing penalties, and broader investigatory power for the Department of Taxation and Finance.	Various dates in 1985
Legislation Enacted in 1986		
Economic Development Zones	Authorized the designation of selected towns, counties, cities and villages as Economic Development Zones (EDZs), which provided certain tax benefits to qualifying businesses.	January 1, 1986
Legislation Enacted in 1987		
Business Tax Reform and Rate Reduction Act of 1987	Changed the tax by lowering the rate, restructuring the alternative bases to include a broader range of items of income, and limiting the usefulness of the Investment Tax Credit.	January 1, 1987
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent tax surcharge on the tax liability of certain business taxpayers. The surcharge was extended twice.	January 1, 1990
Legislation Enacted in 1994		
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994

Subject	Description	Effective Date
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5.0 percent to 3.5 percent.	January 1, 1995
Legislation Enacted in 1997		
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction – AMT	Reduced rate from 3.5 percent to 3.0 percent phased in over two years.	June 30, 1998
Investment Tax Credit	Allowed brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	October 1, 1998
Rate Reduction – ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three-year period beginning after June 30, 1999.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction – AMT	Reduced rate from 3.0 percent to 2.5 percent.	June 30, 2000
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001
Legislation Enacted in 2000		
Energy Reform and Reduction	Changed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed the Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction – Small Businesses	Reduced tax rate for small businesses with entire net income of $200,000 or less to 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Legislation Enacted in 2003		
Modification for Decoupling from Federal Bonus Depreciation	Decoupled from Federal depreciation allowances for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003

Subject	Description	Effective Date
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Legislation Enacted in 2004		
Fixed Dollar Minimum Tax	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from \$100 to \$10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit sunsets on August 20, 2008.	January 1, 2004
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three-factor formula of payroll, property and receipts to a single receipts factor.	Phased in over a three-year period starting in tax year 2006, and fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Capital Base Increase	Increased the maximum tax due under the capital base alternative from \$350,000 to \$1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Legislation Enacted in 2006		
Empire Zones / Significant Investments	Provided that a Qualifying Empire Zone Enterprise (QEZE) with fewer than 200 existing jobs that makes an investment of \$750 million or more and creates 500 new jobs is deemed a "new business," qualifying the taxpayer for a 50 percent refund of its EZ investment tax credits and EZ employment incentive credits. Also authorized such a taxpayer to select its program benefit period to start either upon certification (current law), or when the qualifying investment is placed in service. These provisions are scheduled to expire on December 31, 2007.	January 1, 2006
Eliminate S Corporation Differential Tax Base	Eliminated the tax base imposed on S Corporations that was calculated using the difference between the corporate franchise tax rate and the top personal income tax rate. The rate had been changed, and the base was also suspended during tax years 2003 through 2005 when the PIT surcharge was in effect. Elimination of this base conforms the State tax code with Federal treatment of S corporations.	January 1, 2003

TAX LIABILITY

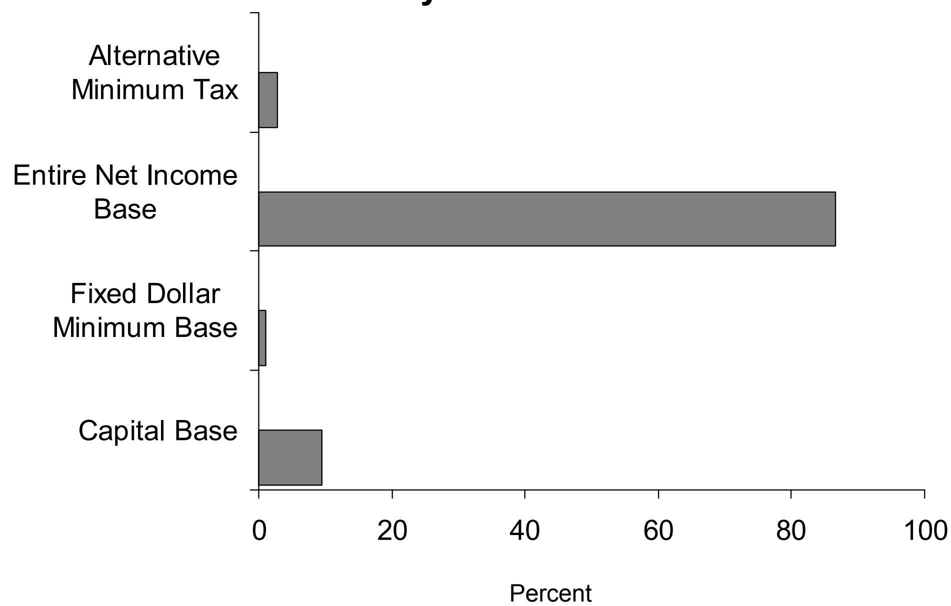
The Corporate Franchise Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA), contains the most recent data available on Article 9-A liability for corporations filing under Article 9-A. The most current liability information is for the 2003 tax year.

Although the study file does not include information on fixed dollar minimum tax filers and S corporations, OTPA compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The *2002 New York State Corporate*

Tax Statistical Report, the most recent data available, indicates that 256,055 taxpayers filed as C corporations, while 316,784 taxpayers filed as S corporations. The number of C corporations decreased by 1.9 percent from the prior year, while the number of S corporations increased by 2.4 percent.

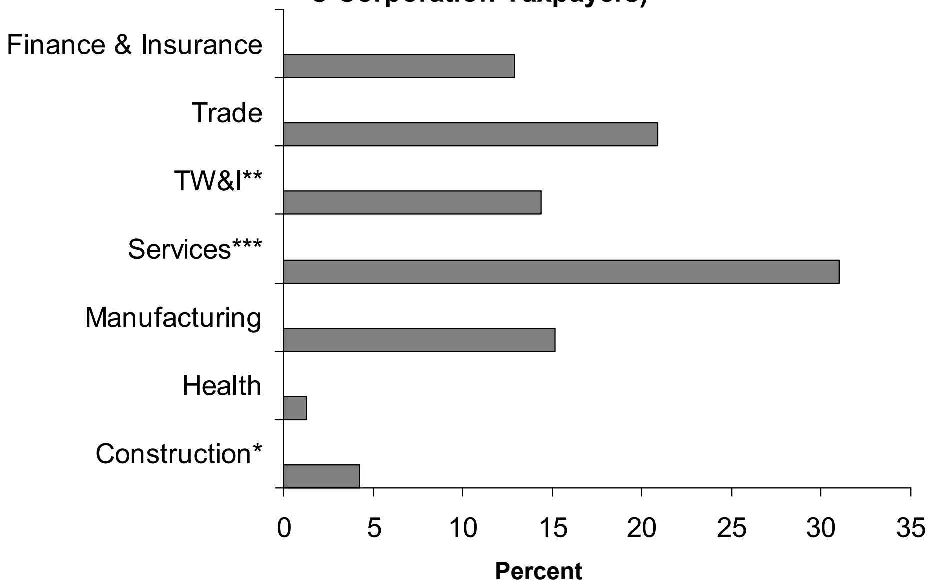
As noted above, C corporations pay under the highest of four alternative bases. In 2003, roughly 87 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 9.5 percent of liability. These percentages have been fairly constant over time with the exception of the AMT base, which has begun to diminish due to Tax Law changes that have reduced the AMT rate.

2003 Distribution of Tax Liability by Tax Base



The next chart shows the distribution of tax liability by major industry sector. The 2003 study file indicates that 12.9 percent of total C corporation liability was paid by the finance and insurance sector and 15.2 percent by the manufacturing sector. The share of total C corporation liability attributable to the service industries has been fairly constant in recent years.

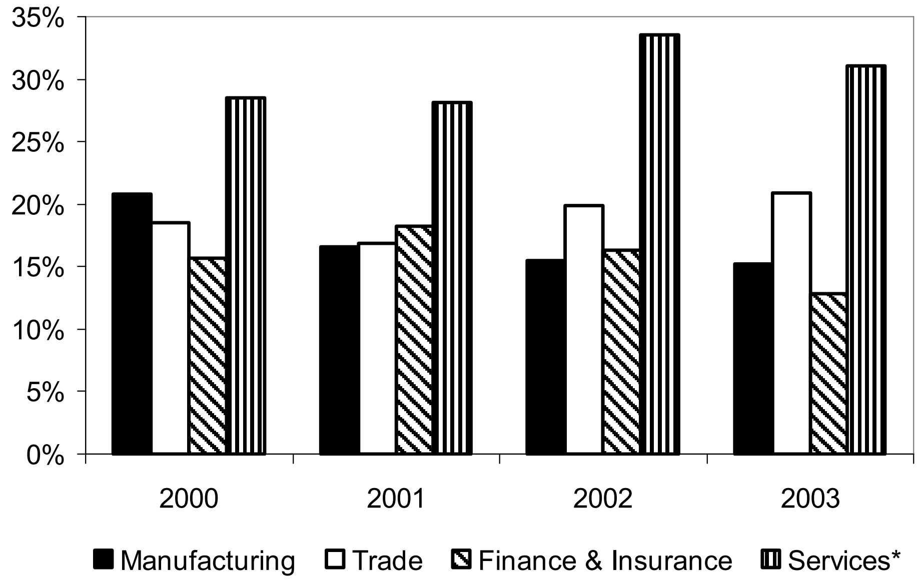
2003 Tax Base Industry Profile
(Share of Total Tax Liability of C Corporation Taxpayers)



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
** Transportation and warehousing and information. (NAICS Sectors 48, 49, and 51)
*** Services consist of real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

The following chart illustrates the fluctuation in the percentage of liability paid by the finance and insurance, trade, manufacturing, and services industry groups. These four industry groups accounted for the vast majority of total tax liability from 2000 to 2003. Liability for the finance and insurance sector was 15.7 percent in 2000, 18.2 percent in 2001, 16.3 percent in 2002, and 12.9 percent in 2003. In comparison, the service industry's share of total liability has remained relatively constant for this same three-year period at roughly 30 percent. The manufacturing industry's share of total liability is also volatile and depends on both economic conditions and the ability of the companies in this sector to take advantage of tax credit programs designed to stimulate the industry. The share of manufacturing liability as a percentage of the total decreased from 2000 to 2001, and then remained roughly constant through 2003.

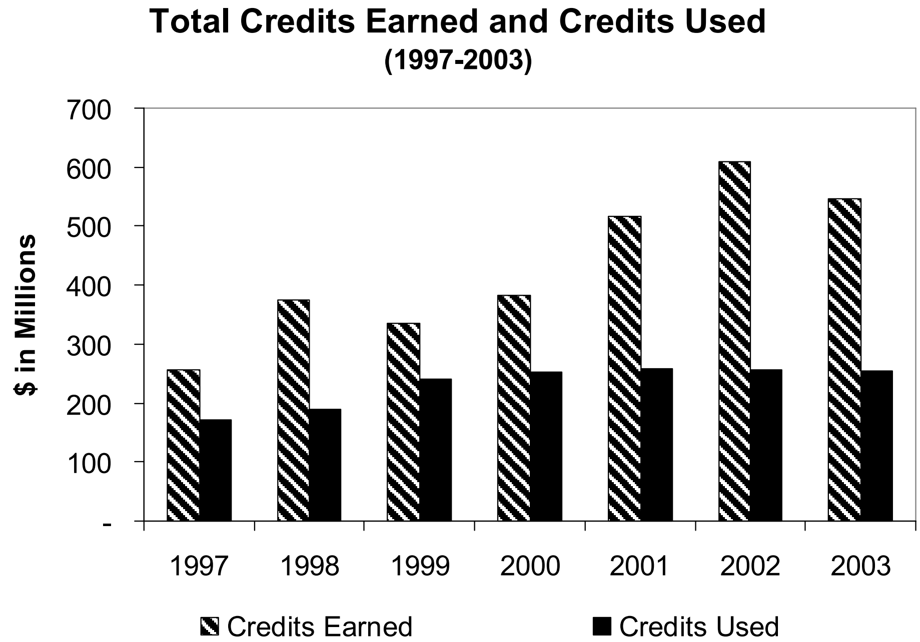
Industry Profile: Percent of Total Liability
(2000-2003)



* These services consist of real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55, 56, 71, 72, and 81)

Credits

The following graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned significantly exceeds the amount of credits used. These credits include the investment tax credit (ITC), the Empire Zone credits, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording tax credit. Credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years. In 2002, the ITC, a benefit to manufacturing companies, accounted for about 33 percent of all tax credits earned and nearly 37 percent of all tax credits used.



Generally, Tax Law provisions prevent taxpayers from using tax credits to reduce final tax liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. Noticeably, the amount of credits earned increased in the 2001 tax year as a result of the Empire Zones Program. The amount of credits used in 2001, however, remained nearly constant. It is expected that after 2003, refundable credits, especially those in the Empire Zones Program, will significantly increase the amount of credits used.

For a more detailed discussion of the methods and models used to develop estimates and projections for the corporate franchise tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

	Corporation Franchise Tax (millions of dollars)						
	Actual 2005-06	Estimated 2006-07	Change	Percent Change	Projected 2007-08	Change	Percent Change
General Fund							
Non-Audit Receipts	2,092	2,525	433	20.7	2,829	304	12.0
Audit Receipts	573	1,020	447	78.0	710	(310)	(30.4)
Executive Budget Initiatives	0	0	0	--	229	229	--
Total	**2,665**	**3,545**	**880**	**33.0**	**3,768**	**223**	**6.3**
Other Funds							
Non-Audit Receipts	309	380	71	23.1	368	(12)	(3.2)
Audit Receipts	80	145	65	81.7	90	(55)	(37.9)
Executive Budget Initiatives	0	0	0	--	39	39	--
Total	**388**	**525**	**137**	**35.2**	**497**	**(28)**	**(5.3)**
All Funds							
Non-Audit Receipts	2,400	2,905	505	21.0	3,197	292	10.1
Audit Receipts	653	1,165	512	78.4	800	(365)	(31.3)
Executive Budget Initiatives	0	0	0	--	268	268	--
Total	**3,053**	**4,070**	**1,017**	**33.3**	**4,265**	**195**	**4.8**

All Funds

2006-07 Estimates

All Funds collections through December of $3,080 million are $972 million or 46 percent above the comparable period in the prior fiscal year. The year-to-date growth is primarily attributable to an increase in audit receipts over the prior year of $481 million, or about 93 percent, and robust growth in non-audit receipts of 31 percent or $491 million. (See the “Audits and Compliance” section for a more detailed discussion of audit receipts).

All Funds receipts estimated for 2006-07 reflect year-to-date results and are estimated to increase by more than $1 billion over the prior year, to $4,070 million. While the estimated 33 percent increase continues to be robust, it is below the 45 percent growth of 2005-06. The 2006-07 increase reflects a 78 percent ($512 million) increase in audit receipts, primarily related to the settlement of a number of multi-year audit issues with financial service companies. Non-audit receipts reflect a 21 percent or $129 million increase that is due to robust growth in corporate profits for 2006 of an estimated 20 percent and refund payments on prior year liabilities that are well below historical levels. These increases are offset by the tax actions implemented in 2006 including changes to the fixed dollar minimum tax brackets and the elimination of the S Corporation differential. The growth in receipts for 2006-07 is consistent with recent trends in Federal corporate tax receipts and the receipts of other states imposing a similar tax.

2007-08 Projections

All Funds receipts for 2007-08 are projected to increase by 4.8 percent ($195 million) to $4,265 million. The increase is primarily due to base receipts growth that is in line with projected growth in corporate profits, and Executive Budget initiatives described above that will close loopholes and conform New York to Federal rules and the practices of other States ($268 million), offset by a decline in audit receipts from last year's historic level ($365 million). However, the ongoing audit base will reflect new budgetary resources for the Department of Taxation and Finance that will increase audit receipts through investments in technology and additional compliance agents. In addition, Tax Department regulations clarifying certain transactions conducted by financial companies are expected to result in significant increases in ongoing audit receipts.

General Fund

General Fund collections for 2006-07 reflect year-to-date trends and are estimated to increase by $880 million over the prior year or to $3,545 million. The nearly 33 percent increase is attributable to a 78 percent increase in audit receipts ($447 million) from last year's levels and robust growth in non-audit receipts of 21 percent. Non-audit receipts reflect growth of 10 percent in the estimated payments of calendar year filers, who comprise approximately 70 percent of the tax base, refunds that are lower than historic trends, and first installment payments for 2007 that are based upon 2006 liabilities.

General Fund collections for 2007-08 are projected to increase by $223 million, to $3,768 million. The increase reflects the impact of $229 million in Executive Budget initiatives described above and growth in non-audit receipts of 11.5 percent ($291 million), offset by a $310 million decline in audit receipts from the prior year.

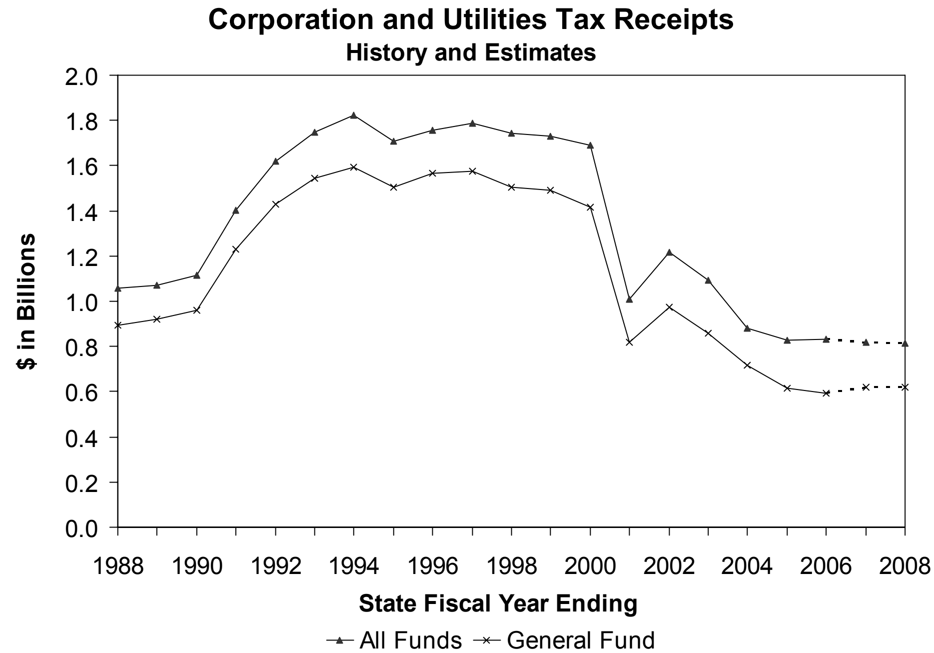
Other Funds

MTOAF tax receipts for 2006-07 reflect year-to-date results and are estimated at $525 million (including $145 million in audit receipts). Surcharge receipts for 2007-08 of $497 million reflect a projected return to more historical collection levels in non-audit receipts, and include $90 million in audit receipts and $39 million in receipts from Executive Budget initiatives.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	591.0	619.0	28.0	4.7	618.0	(1.0)	(0.2)
Other Funds	241.4	198.0	(43.4)	(18.0)	198.0	0.0	0.0
All Funds	832.4	817.0	(15.4)	(1.9)	816.0	(1.0)	(0.1)

Note: Totals may differ due to rounding.



CORPORATION AND UTILITIES TAXES BY FUND (millions of dollars)	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Project Funds	Refunds	Capital Projects Funds[2]	All Funds Receipts
1997-98	1,517	13	1,504	264	2	262	0	0	0	1,766
1998-99	1,509	20	1,489	242	2	240	0	0	0	1,729
1999-2000	1,450	32	1,418	276	2	274	0	0	0	1,692
2000-01	847	30	817	193	1	192	0	0	0	1,009
2001-02	999	27	972	247	1	246	0	0	0	1,218
2002-03	909	49	860	232	1	231	0	0	0	1,091
2003-04	732	17	715	170	3	167	0	0	0	882
2004-05	655	38	617	195	1	194	16	0	16	827
2005-06	608	17	591	229	6	223	19	1	18	832
Estimated										
2006-07	640	21	619	201	3	198	18	1	17	817
2007-08	639	21	618	201	3	198	18	1	17	816

[1] Receipts from the MTA business tax surcharge and a portion of receipts from the taxes imposed by sections 183 and 184 of the Tax Law deposited in accounts of the Mass Transportation Operating Assistance Fund (MTOAF). Proposed law will redistribute sections 183 and 184 receipts within the accounts of MTOAF.

[2] A portion of receipts from taxes imposed by sections 183 and 184 of the Tax Law deposited to Dedicated Highway and Bridge Trust Fund (DHBTF).

PROPOSED LEGISLATION

Legislation proposed with this Budget would amend the deposit and disposition provisions relating to the receipts from the taxes imposed on transportation and transmission companies by sections 183 and 184 to provide that those receipts be distributed as follows:

- 20 percent to the Dedicated Highway and Bridge Trust Fund;
- 27 percent to the Public Transportation Systems Operating Assistance Account (PTSOAA) of the MTOAF; and
- 53 percent to the Metropolitan Mass Transportation Operating Assistance Account (MMTOAA) of the MTOAF.

DESCRIPTION

Tax Base and Rate

Article 9 of the Tax Law imposes taxes and fees on a number of specialized industries, including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives. Historically, Article 9 receipts have come primarily from the public utility, telecommunications, and transportation industries. However, statutory and regulatory changes enacted in 2000 have reduced the percentage share of General Fund corporation and utilities tax receipts attributable to utilities from 56.5 percent in 1999-2000 to 12.4 percent in 2005-06. In recent years, the telecommunications industry has become the primary source of collections, accounting for nearly 83 percent of 2005-06 General Fund corporation and utilities tax receipts.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of $1/20^{th}$ of one percent of the total amount of the par value (the nominal or face value of a security) of the stock that the corporation is authorized to issue. The tax rate for stocks with “no-par” value is five cents per share. The tax also applies to any subsequent changes in the share of stocks, including changes to the number of par value and “no-par” value stocks or newly authorized stock. The minimum tax imposed by section 180 is $10.

Section 181 imposes a license fee on foreign (out-of-State) corporations for the privilege of exercising a corporate franchise or conducting business in a corporate or organized capacity in New York State. The fee is assessed at a rate equivalent to the organization tax imposed by section 180 and attributable to the amount of capital stock employed in the State. Foreign corporations are also subject to an annual maintenance fee of $300. Foreign corporations may claim a credit for the fee paid against the tax due under Article 9, the corporate franchise tax or the bank tax.

Section 183 provides for a franchise tax on the capital stock of transportation and transmission companies, including telecommunications, trucking, railroad, and other transportation companies. The tax is imposed at the highest of the following three alternatives:

- 1.5 mills per dollar of the net value of capital stock allocated to New York State;
- 0.375 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of $75.

Section 184 levies an additional franchise tax of 0.375 percent on the gross receipts of transportation and transmission companies. As of July 1, 2000, gross receipts from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA gross receipts are excluded from the tax. Railroad and trucking companies that elected to remain subject to Article 9 taxes (rather than to become subject to the corporate franchise tax imposed under Article 9-A) pay the tax at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Section 185 imposes a franchise tax on farmers, fruit-growers and other agricultural cooperatives. The tax is imposed at the highest of the following three alternatives:

- 1.0 mills per dollar of the net value of capital stock allocated to New York State;
- 0.25 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of $10.

Effective January 1, 2000, the section 186 franchise tax imposed on public utilities and waterworks, gas, electric, steam heating, lighting and power companies was repealed, and these taxpayers became subject to the corporate franchise tax imposed under Article 9-A of the Tax Law.

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services. As shown in the following tables, between January 1, 2000 and January 1, 2005 the gross receipts tax imposed on:

- charges for transmission/distribution services to residential customers was gradually reduced from 3.25 percent to its current rate of 2 percent;
- charges for transmission/distribution services to nonresidential customers was gradually eliminated; and
- the sale of the energy commodity was gradually eliminated, declining from 3.25 percent to zero.

TAX RATES CONTAINED IN SECTION 186-a OF THE TAX LAW		
Effective Date	Type	Rate (percentage)
Prior to January 1, 2000	Commodity	3.25
	Transmission/Distribution	3.25
January 1, 2000	Commodity	2.10
	Transmission/Distribution	2.50
January 1, 2001	Commodity	2.00
	Transmission/Distribution	2.45
January 1, 2002	Commodity	1.90
	Transmission/Distribution	2.40
January 1, 2003	Commodity	0.85
	Transmission/Distribution	2.25
January 1, 2004	Commodity	0.40
	Transmission/Distribution	2.125
January 1, 2005	Commodity	0.00
	Transmission/Distribution	2.00

PHASE-IN SCHEDULE FOR EXCLUSION OF TRANSMISSION AND DISTRIBUTION FOR NONRESIDENTIAL CUSTOMERS	
Effective Date	Percent Excluded
Calendar Year 2000	0
Calendar Year 2001	0
Calendar Year 2002	25
Calendar Year 2003	50
Calendar Year 2004	75
Calendar Year 2005	100

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services. The tax was reduced to 3.25 percent from 3.5 percent on October 1, 1998, and reduced again to 2.5 percent on January 1, 2000.

Section 189, effective August 1, 1991, imposed a tax on the importation of natural gas for consumption. As shown in the following table, the tax was gradually eliminated, effective January 1, 2005.

TAX RATES CONTAINED IN SECTION 189	
Effective Date	Rate (percentage)
Prior to January 1, 2000	4.25
January 1, 2000	2.10
January 1, 2001	2.00
January 1, 2002	1.90
January 1, 2003	0.85
January 1, 2004	0.40
January 1, 2005	0.00

Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD.

Administration

Taxpayers subject to sections 182, 182-a, 184, 186-a and 186-e make quarterly tax payments of equal installments on an estimated basis in March, June, September and December. A final payment is made in March.

As shown in the following table, the Tax Law has been amended from time-to-time to provide various formulas for the deposit and disposition of receipts from the taxes imposed by sections 183 and 184 of the Tax Law to the Mass Transportation Operating Assistance Fund (MTOAF) and more recently the Dedicated Highway and Bridge Trust Fund (DHBTF). Legislation proposed with this Budget will amend the disposition provisions contained in the Tax Law to redistribute deposits from the MMTOA Account to the PTSOA Account of the MTOAF.

SECTIONS 183 AND 184 DISTRIBUTION TO FUNDS SINCE 1982 (percentage)

Effective Date	General Fund	MMTOAA	PTSOAA	DHBTF
July 1, 1982	60.0	40.0	0.0	0.0
April 1, 1996	52.0	48.0	0.0	0.0
January 1, 1997	50.5	49.5	0.0	0.0
January 1, 1998	46.0	54.0	0.0	0.0
January 1, 2000	36.0	64.0	0.0	0.0
January 1, 2001	20.0	80.0	0.0	0.0
April 1, 2004 (current law)	0.0	80.0	0.0	20.0
April 1, 2007 (proposed law)	0.0	53.0	27.0	20.0

All receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD are deposited in the MTAOF.

Significant Legislation

The significant statutory changes to the corporation and utilities taxes since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Tax Surcharge	Imposed a temporary 15 percent surcharge on taxpayers liable for tax under sections 183, 184, 186 and 186-a of the Article 9 corporation and utilities tax. The surcharge was phased out over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1995		
Telecommunications Act of 1995	Restructured the transmission portion of section 184 to apply to only local telecommunication services. Also, all toll revenues from interstate and inter-LATAs services were exempted.	January 1, 1995
	Enacted section 186-e, which imposed a 3.5 percent excise tax on receipts from telecommunications services.	
	Replaced the property factor with a new allocation mechanism. Under the "Goldberg" allocation method, receipts are allocated to New York if the call originates or terminates in this State and is charged to a service address in this State, regardless of where the charges for such services are billed or ultimately paid.	
	Shifted the access deduction from inter-exchange carriers and local carriers who are ultimate sellers to initial sellers.	

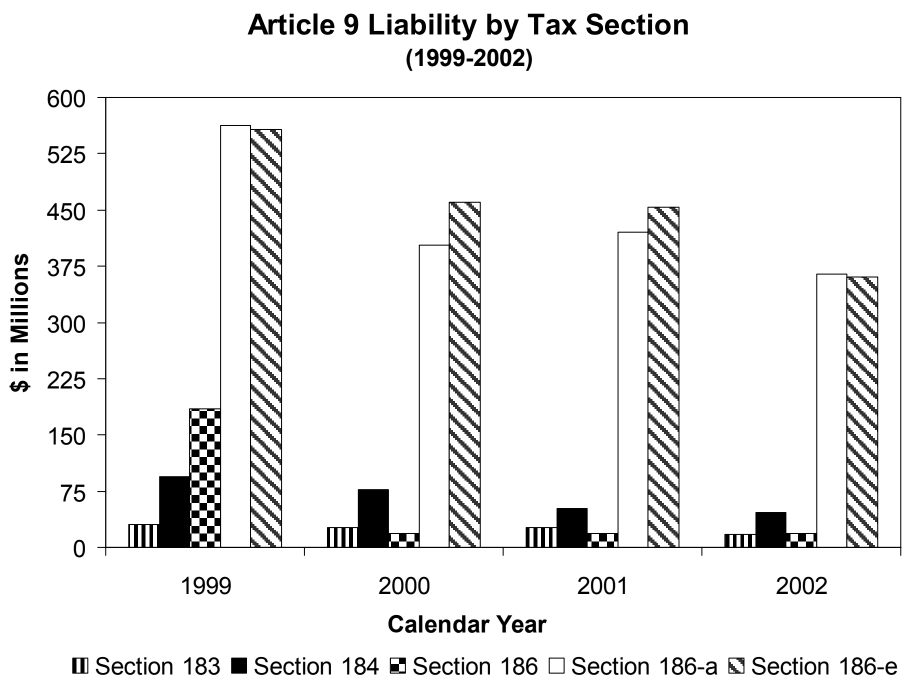
Subject	Description	Effective Date
Section 184	Exempted 30 percent of intra-LATA toll receipts.	January 1, 1996
Legislation Enacted in 1996		
Trucking and Railroad Companies	Allowed these companies the option of being taxed under the general corporate franchise tax (Article 9-A).	January 1, 1997
	Reduced the tax rate on section 184 for these companies from 0.75 percent to 0.6 percent.	
Legislation Enacted in 1997		
Power for Jobs Program	Created a tax credit against section 186-a to compensate utilities for revenue losses associated with participation in the program. The program makes low-cost power available to businesses, small businesses and not-for-profit corporations for job retention and creation. The credit is allowed to the utility providing low-cost power to retail customers selected by the Power Allocation Board.	1997
Rate Reductions	Reduced the section 184 tax rate from 0.75 percent to 0.375 percent.	January 1, 1998
	Reduced section 186-a and section 186-e tax rates from 3.5 percent to 3.25 percent as of October 1, 1998, and to 2.5 percent on January 1, 2000.	
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. Section 186-a and section 189 taxes are phased out over a five-year period. Elimination of the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; elimination of the tax for all other business customers over a five-year period. For residential consumers, the commodity tax is eliminated and the transmission/distribution rate of the 186-a tax is reduced from 2.5 percent to 2.0 percent.	January 1, 2000
Power for Jobs	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low-cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program.	July 30, 2002
Estimated Payments	Increased the first quarterly payment of estimated tax, for taxpayers paying under sections 182, 182-a, 184, 186-a, and 186-e, from 25 percent to 30 percent of the prior year's liability. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006.	January 1, 2003
Legislation Enacted in 2003		
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Sections 183 and 184	Allocated the remaining 20 percent of section 183 and 184 collections to the Dedicated Highway and Bridge Trust Fund (DHBTF).	April 1, 2004
Legislation Enacted in 2004		
Power for Jobs Program	Modified the Power for Jobs Program to allow prior recipients of low cost power an option of a credit or rebate.	March 1, 2004

Subject	Description	Effective Date
Legislation Enacted in 2005		
Power for Jobs Program Extension	Extended the Power for Jobs program through 2006.	April 1, 2005
Legislation Enacted in 2006		
Power for Jobs Program Extension	Extended the Power for Jobs program through June 2007.	April 1, 2006

TAX LIABILITY

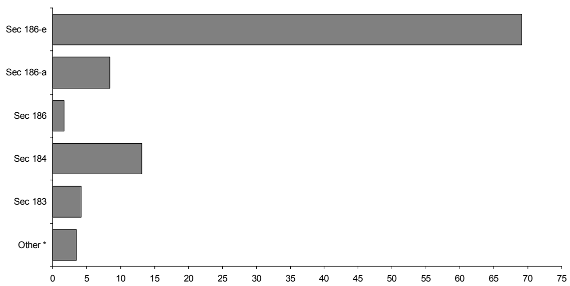
The *2002 New York State Corporate Tax Statistical Report* contains the most recent data available on Article 9 tax liability. The corporation and utilities tax represented almost 27 percent of total New York State corporate tax liability in 2002.

The chart below shows Article 9 liability by tax section as shown in the *2002 New York State Corporate Tax Statistical Report*. Total tax liability for Article 9 was $1,432 million in 1999, $985 million in 2000, $970 million in 2001 and $808 million in 2002. The declines in liability over this period are attributable to the repeal of the section 186 franchise tax imposed on water, gas, electric and power companies on January 1, 2000, and phased-in reductions in the tax rates imposed under section 186-a on commodities and transmission and distribution that began in tax year 2000.



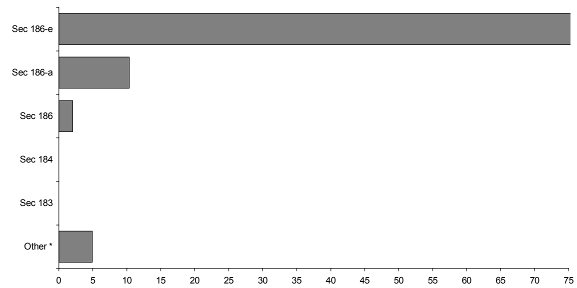
The bar graphs below depict the share of total 2005-06 Article 9 All Funds and General Fund collections attributable to each section of Article 9 of the Tax Law. The All Funds graph reflects collections attributable to each section of the Tax Law before the distribution of section 183 and 184 collections to MTOAF and DHBTF.

2005-06 All Funds Percent Distribution by Section



* Other includes sections 180,181, and 185

2005-06 General Fund Percent Distribution by Section



* Other includes sections 180,181, and 185

The table below reflects the tax collections attributable to each section of Article 9 of the Tax Law for 2005-06, 2006-07 and 2007-08. The All Funds total reflects taxes from the various sections prior to the distribution of receipts from sections 183 and 184 to MTOAF and DHBTF.

CORPORATION AND UTILITIES TAXES BY TAX LAW SECTION
(millions of dollars)

Section of Law	Type of Companies	2005-06 Actual	2006-07 Estimated	2007-08 Projected
180	Organization tax on New York (domestic) corporations	2	1	1
181	License and maintenance fees on out-of-State (foreign) corporations	28	26	26
183	Franchise tax on transportation and transmission companies	25	17	17
184	Additional franchise tax on transportation and transmission companies	67	68	68
185	Franchise tax on agricultural cooperatives	0	0	0
186 [1]	Franchise tax on water, steam, gas, electric, light and power companies	12	28	28
186a & e	Gross receipts tax on public utilities and excise tax on telecommunications	549	564	563
Various	MTA Surcharge	149	113	113
	All Funds Total	832	817	816
	Less Other Funds			
	MTA Surcharge	149	113	113
	MTOAF	74	68	68
	DHBTF	18	17	17
	General Fund	591	619	618

[1] Tax was repealed January 1, 2000, at which time such companies generally became taxable under the corporation franchise tax.

For a more detailed discussion of the methods and models used to develop estimates and projections for the corporation and utilities taxes, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

Corporation and Utilities Taxes (millions of dollars)							
	Actual 2005-06	Estimated 2006-07	Change	Percent Change	Projected 2007-08	Change	Percent Change
General Fund							
Non-Audit Receipts	550	579	29	5.3	598	19	3.3
Audit Receipts	41	40	(1)	(2.4)	20	(20)	(50.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**591**	**619**	**28**	**4.7**	**618**	**(1)**	**(0.2)**
Other Funds							
Non-Audit Receipts	181	178	(3)	(1.9)	190	12	6.7
Audit Receipts	60	20	(40)	(66.6)	8	(12)	(60.0)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**241**	**198**	**(43)**	**(18.0)**	**198**	**0**	**0.0**
All Funds							
Non-Audit Receipts	731	757	26	3.5	788	31	4.1
Audit Receipts	101	60	(41)	(40.6)	28	(32)	(53.3)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**832**	**817**	**(15)**	**(1.8)**	**816**	**(1)**	**(0.1)**

All Funds

2006-07 Estimates

All Funds collections to date are $583 million, an increase of $51 million, or approximately 9.7 percent, above the comparable period in the prior fiscal year. This year-to-date growth is primarily attributable to increased collections from utility companies, primarily electric utilities, and increased audit receipts from telecommunications companies, partially offset by decreased non-audit receipts from this same sector. (See the "Audits and Compliance" section for a more detailed discussion of audit receipts.) Collections under section 186a from utilities regulated by the Public Service Commission increased by nearly $31 million, or 84 percent, from 2005-06 collections. For telecommunications companies, audit collections increased by nearly $19 million, or more than 148 percent, while non-audit collections decreased by $25 million, or 6.6 percent, leading to an overall decrease of $6 million, or 1.6 percent below 2005-06 collections through December.

All Funds receipts for 2006-07 are estimated to be $817 million, a decrease of $15 million, or 1.8 percent below last year. This decrease reflects continuation of the year-to-date weakness in base tax collections from telecommunication companies and the return to normal audit collection levels for the remainder of the year, following extraordinary audit collections in 2005-06 and early 2006-07. Collections from utilities are expected to grow for the rest of the year, but their growth rate is expected to moderate and will only partially offset the decreased collections from audits and telecommunications companies. Overall, non-audit receipts are expected to increase by $26 million, or 3.5 percent, from 2005-06, while audit collections are expected to fall by $41 million or nearly 41 percent.

2007-08 Projections

All Funds receipts are projected to be $816 million, a decrease of $1 million, or 0.1 percent below 2006-07. Contrary to experience before the current fiscal year, no change is expected in collections from the telecommunications industry, while small, offsetting changes are expected in collections from other industries. Annual audit receipts are expected to continue to decrease, by $32 million or 53 percent, from 2006-07, as they return to historical levels. Non-audit collections are expected to increase by $31 million or nearly 4.1 percent, largely reflecting moderate growth in payments from utilities.

General Fund

General Fund collections for 2006-07 are estimated to be $619 million, an increase of $28 million, or 4.7 percent above 2005-06. The increase is largely attributable to growth in non-audit receipts, as audit receipts are projected to remain roughly at 2005-06 levels.

For 2007-08, General Fund collections are projected to be $618 million, a decrease of $1 million from 2006-07. The 2007-08 estimate anticipates a 50 percent reduction in audit collections from 2006-07 and refunds remaining at 2006-07 levels. Receipts from the telecommunications industry are expected to remain unchanged. Receipts from the transmission and distribution of gas and electricity are projected to increase slightly from 2006-07 levels.

Other Funds

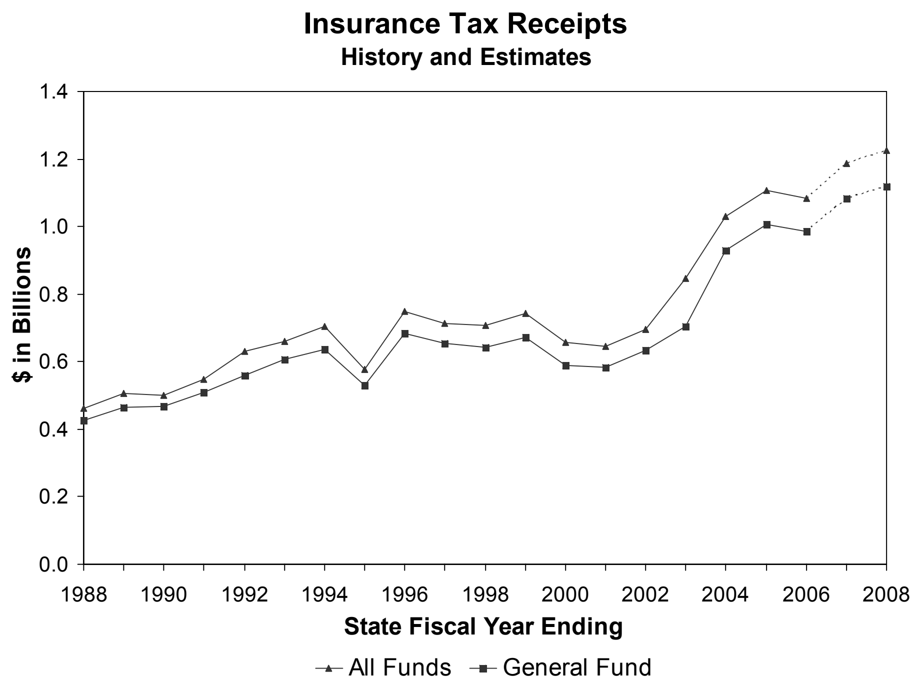
As previously discussed, a portion of Article 9 receipts is deposited into special revenue funds. Sections 183 and 184 collections deposited in the MTOAF will total an estimated $68 million for 2006-07. The remaining portion of sections 183 and 184 collections, or $17 million, is earmarked for the DHBTF. In 2007-08, the distribution of 183 and 184 collections will reflect Executive Budget legislation discussed above, resulting in deposits of $45 million MMTOAA will total $45 million, $23 million to PTSOAA, and $17 million to DHBTF.

The MCTD business tax surcharge will result in deposits of an estimated $113 million for 2006-07 and $113 million for 2007-08 into the MTOAF.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	986.8	1,113.0	126.2	12.8	1,150.0	37.0	3.3
Other Funds	95.9	113.0	17.1	17.8	109.0	(4.0)	(3.5)
All Funds	1,082.7	1,226.0	143.3	13.2	1,259.0	33.0	2.7

Note: Totals may differ due to rounding.



INSURANCE TAXES BY FUND (millions of dollars)							
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	All Funds Receipts
1997-98	673	32	641	69	3	66	707
1998-99	718	45	673	76	6	70	743
1999-2000	634	45	589	79	10	69	658
2000-01	648	64	584	70	10	60	644
2001-02	667	34	633	69	6	63	696
2002-03	763	59	704	82	10	72	776
2003-04	983	53	930	109	8	101	1,031
2004-05	1,058	51	1,007	119	18	101	1,108
2005-06	1,022	35	987	103	7	96	1,083
Estimated							
2006-07	1,144	31	1,113	117	4	113	1,226
2007-08							
Current Law	1,158	31	1,127	113	4	109	1,236
Proposed Law	1,181	31	1,150	113	4	109	1,259

[1]Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.

PROPOSED LEGISLATION

Article 33 of the Tax Law exempts town or county cooperative insurance corporations in existence prior to January 1, 1974. Such companies were originally formed to provide low cost insurance in rural areas for "loss or damage due to fire or lightning" and for loss due to "larceny of domestic animals, horses, wagons, and sleighs". Legislation submitted with this Budget would eliminate the competitive advantage afforded to exempt companies that have expanded their activities beyond those intended to be covered by the exemption by eliminating the exemption for companies that are writing annual premiums of more than $25 million.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insureds for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of a mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS

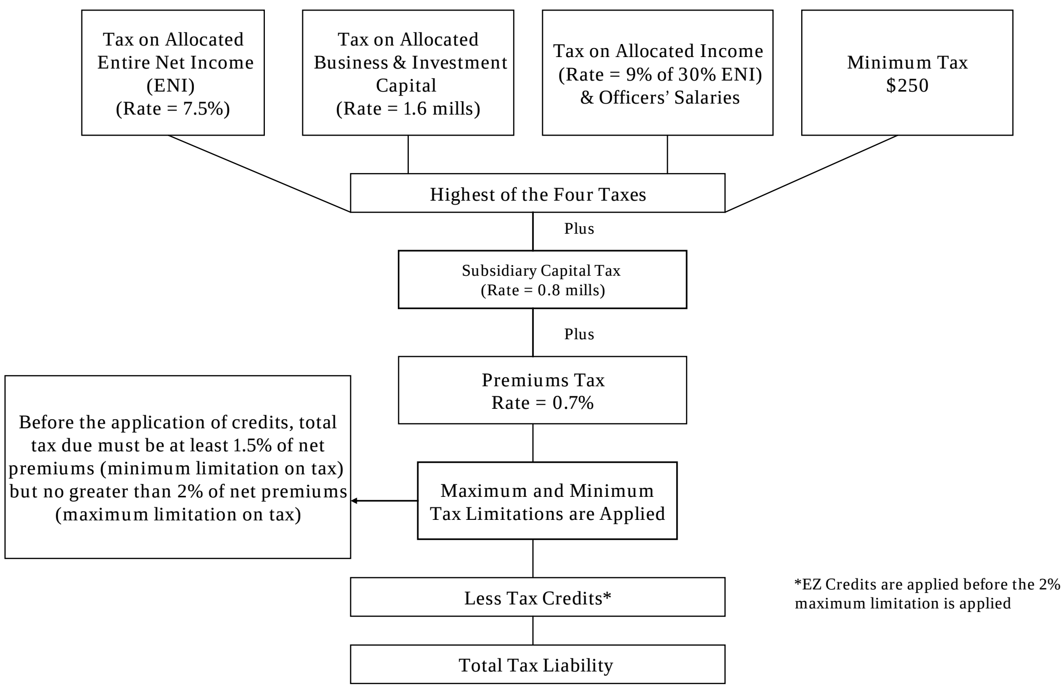
Base	Rate
Allocated entire net income	7.5 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent
Minimum tax	$250

Tax is allocated to New York under the entire net income (ENI) base by a formula that apportions ENI based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one) earned or paid in New York, to total premiums and total wages for all employees for the tax year.

The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2.0 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under these limitations, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax or limitation (1.5 percent of net premiums) but no greater than the maximum limitation (2.0 percent of net premiums).

Computation of Article 33 Tax on Life Insurance Companies



Generally, taxpayers with a tax liability that exceeds the limitation may not reduce their liability with tax credits to a level below the limitation. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to reduce their tax liability below the limitation.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of their tax liability which is attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of Insurance for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax is imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive insurers are subject to a minimum tax of $5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an unauthorized insurer (an unauthorized insurer is an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department).

The Insurance Law imposes a premiums tax on a licensed excess line insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

Administration

Non-life insurance companies make quarterly tax payments on an estimated basis in equal installments in March, June, September, and December. The first quarterly estimated tax payment from life insurance companies is required to be 40 percent (rather than 25 percent) of prior year liabilities.

The Insurance Law authorizes the Superintendent of Insurance to assess and collect retaliatory taxes from a foreign insurance corporation when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been employed by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. Article 33 taxpayers are eligible for several targeted tax credits, including the certified capital companies (CAPCOs) credit, the investment tax credit (ITC), the long-term care insurance credit, and the Empire Zones credits. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts and certain health insurance contracts for insureds aged 65 years and older. Certain corporations and other entities that provide insurance are exempt from State franchise taxes and the regional business surcharge. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. Health maintenance organizations (HMOs) are examples of such exempt entities; however, such entities may be subject to tax under other articles of the Tax Law. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974, are exempt from taxation while those formed on or after that date are subject to the tax. Legislation submitted with this Budget will address an unintended competitive advantage now afforded to certain exempt cooperatives.

Significant Legislation

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a temporary 15 percent surcharge on insurance tax liability otherwise due. Subsequent legislation eliminated the surcharge over a three-year period starting in 1994.	January 1, 1990
Legislation Enacted in 1997		
Premium Tax Rate for Life Insurers	Reduced the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on Tax Liability	Reduced the limitation on tax liability for life insurers from 2.6 percent to 2.0 percent.	January 1, 1998
Credit for Investment in Certified Capital Companies (CAPCOs)	Changed credit to equal 100 percent of amount invested in CAPCOs for taxable years beginning after 1998. The rate was changed to equal 10 percent per year for ten years. The statewide cap was set at $100 million.	January 1, 1999
Captive Insurance Companies	Allowed the formation of captive insurance companies that are subject to a special premiums tax with a top rate of 0.4 percent or $5,000 in lieu of the premiums and income-based tax.	January 1, 1998
Legislation Enacted in 1999		
CAPCOs	Established CAPCO Program Two. Increased Statewide cap from $100 million to $130 million.	January 1, 2001
State Insurance Fund	Conformed the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001

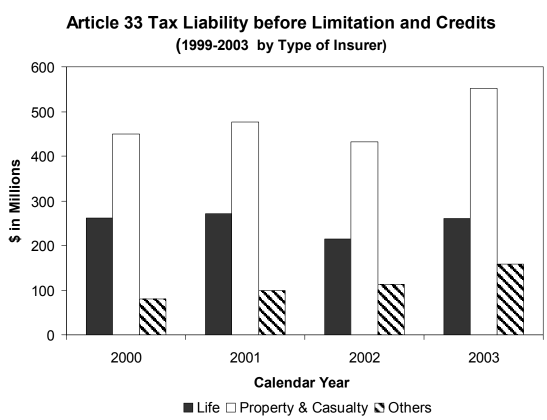
Subject	Description	Effective Date
Entire Net Income (ENI) Tax Rate	Reduced ENI tax rate over a three-year period: • 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 8.0 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduced the limitation on tax liability for non-life insurers over a three-year period: • 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 2.0 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from $130 million to $280 million.	January 1, 2002
Investment Tax Credit	Allowed insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations.	Available for property placed in service between January 1, 2002 and October 1, 2003.
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed the current Economic Development Zones into virtual "tax-free" zones for certain businesses. The enhanced benefits of this program include a tax credit on real property taxes paid, tax reduction credit, and sales and use tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payments	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for non-life insurance companies under Article 33. Life insurance companies, which currently pay a first quarterly payment of 40 percent, are not affected. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006, and expires January 1, 2007.	January 1, 2003
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • Life and health insurance taxpayers covering life and accident/health premiums are taxed on the four tax bases and are subject to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident and health premiums are subject to tax of 1.75 percent of premiums. • All other non-life insurers are subject to tax of 2.0 percent of premiums.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required modifications to Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005

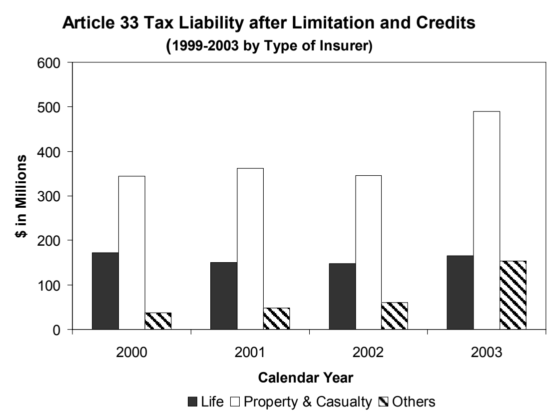
Subject	Description	Effective Date
Legislation Enacted in 2004		
Fourth Certified Capital Company (CAPCO) Credit	Established CAPCO Program Four. Increased the Statewide cap from $280 million to $340 million.	January 1, 2006
Legislation Enacted in 2005		
Fifth Certified Capital Company (CAPCO) Program	Established CAPCO Program Five. Provided an additional allocation of $60 million that is made available over a ten-year period beginning in 2007.	April 1, 2005
Legislation Enacted in 2006		
Annuity Premiums	Amended the tax limitation applicable to certain insurance companies to provide that it is computed by using the amount of annuity premium of the insurance company that is in excess of 95 percent of total premiums.	January 1, 2006

TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2003 tax year, the most recent year for which such data are available. The 2003 Study File indicates that the property and casualty sector is the largest sector, accounting for 60.6 percent of total tax liability. Life insurers are the second largest, with 20.5 percent of total liability, with the 18.9 percent balance attributable to other insurers.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 2000 through 2003 before and after the application of the limitation of tax due as determined by taxable premiums and credits.





Property and Casualty and Life Companies

According to data from the New York State Insurance Department, the five largest lines of business under the property and casualty sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. In 2005, these lines accounted for more than 82 percent of total premiums. The table below reports actual property and casualty premiums and growth from 1999 through 2005 for New York State.

PROPERTY AND CASUALTY INSURANCE PREMIUMS NEW YORK CALENDAR YEAR (millions of dollars/percent)							
Lines of Insurance	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Automobile	9,594	9,664	10,773	11,910	12,566	12,903	12,344
percent change	*(0.38)*	*0.73*	*11.48*	*10.55*	*3.86*	*3.01*	*(4.33)*
Workers' Compensation	2,725	3,154	3,282	3,412	3,404	3,437	3,759
percent change	*1.44*	*15.74*	*4.06*	*3.96*	*9.41*	*0.95*	*9.38*
Commercial Multi-Peril	2,002	2,085	2,178	2,680	2,767	2,899	2,957
percent change	*(3.33)*	*4.15*	*4.46*	*23.05*	*3.25*	*4.76*	*2.01*
General Liability	1,825	2,148	2,455	3,319	3,494	4,004	3,995
percent change	*(33.25)*	*17.70*	*14.29*	*35.19*	*2.21*	*14.61*	*(0.24)*
Homeowners' Multi-Peril	2,230	2,326	2,469	2,661	2,901	3,183	3,429
percent change	*2.25*	*4.30*	*6.15*	*7.78*	*4.14*	*9.71*	*7.73*
Other	3,635	3,720	4,476	5,164	5,624	5,635	5,651
percent change	*(1.53)*	*2.34*	*20.32*	*15.37*	*8.91*	*0.18*	*0.28*
TOTAL P/C PREMIUMS	22,011	23,098	25,808	29,146	30,717	32,061	32,135
Annual Increase/Decrease							
percent change	*(4.07)*	*4.94*	*11.73*	*12.93*	*5.39*	*4.37*	*0.23*

Source: New York State Insurance Department

Total premiums for property and casualty companies overall grew by less than 1 percent in 2005. Premium growth in 2006 is expected to be about 3 percent and is consistent with industry projections.

The Federal Gramm-Leach-Bliley Act of 1999, which permits insurance companies, banks and brokerages to form consolidated companies offering a full range of financial services, has broken down the barriers that once separated the various sectors of the financial services industry. Banks and brokerage houses now sell more annuities than life insurance agents. Life insurance agents, in turn, now sell investment-oriented products, including mutual funds. Total collections from the life sector of the industry is expected to increase by about eight percent in 2006, and is consistent with industry expectations.

For a more detailed discussion of the methods and models used to develop estimates and projections for the insurance taxes, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

Insurance Tax Receipts (millions of dollars)

	Actual 2005-06	Estimated 2006-07	Change	Percent Change	Projected 2007-08	Change	Percent Change
General Fund							
Non-Audit Receipts	959	1,073	113	11.8	1,092	19	1.8
Audit Receipts	27	40	13	46.5	35	(5)	(12.5)
Executive Budget Initiatives	0	0	0	--	23	23	--
Total	**987**	**1,113**	**126**	**12.8**	**1,150**	**37**	**3.3**
Other Funds							
Non-Audit Receipts	90	106	16	17.6	103	(3)	(2.8)
Audit Receipts	6	7	1	21.2	6	(1)	(14.3)
Executive Budget Initiatives	0	0	0	--	0	0	--
Total	**96**	**113**	**17**	**17.7**	**109**	**(4)**	**(3.5)**
All Funds							
Non-Audit Receipts	1,050	1,179	129	12.3	1,195	16	1.4
Audit Receipts	33	47	14	42.1	41	(6)	(12.8)
Executive Budget Initiatives	0	0	0	--	23	23	--
Total	**1,083**	**1,226**	**143**	**13.2**	**1,259**	**33**	**2.7**

All Funds

2006-07 Estimates

All Funds preliminary collections through December of $838 million are $112 million, or more than 15 percent above the comparable period in the prior fiscal year. The year-to-date growth is primarily attributable to an increase in audit receipts over the prior year of $8 million or about 24 percent and growth in non-audit receipts of 15 percent. The growth in non-audit receipts reflects a reduction in refunds claimed by taxpayers with respect to prior year payments. (See the “Audits and Compliance” section for a more detailed discussion of audit receipts).

All Funds receipts estimated for 2006-07 reflect year-to-date collection results and are estimated to increase by $143 million from the prior year or to $1,226 million. The 13.2 percent increase is attributable to a 42 percent ($14 million) increase in audits receipts and a 12.3 percent increase in non-audit receipts ($129 million).

2007-08 Projections

All Funds receipts for 2007-08 are projected to increase by 2.7 percent ($33 million) to $1,259 million. The increase is primarily due to the proposal described above that will eliminate an unintended competitive advantage now afforded to certain taxpayers ($23 million) as well as modest growth in non-audit receipts of 1.4 percent ($16 million). These increases are offset by a decline in expected audit receipts from the prior year ($6 million). The projection for modest growth in non-audit receipts is also consistent with industry projections that expect growth in premiums written to slow down in 2007.

General Fund

General Fund collections for 2006-07 reflect year-to-date trends and are estimated to increase $126 million over the prior year to $1,113 million. The almost 13 percent increase is attributable to a 47 percent increase in audit receipts ($13 million) from last year's levels and robust growth in non-audit receipts of 12 percent. Non-audit receipts reflect growth in estimated payments related to tax year 2006 of less than two percent, refunds that are below prior year payouts and first installment payments for 2007 that are based upon 2006 liabilities and are projected to grow by roughly two percent. General Fund receipts for 2006-07 also include an estimated $85 million in receipts collected by the Insurance Department.

General Fund collections for 2007-08 are projected to increase $37 million (3.3 percent) to $1,150 million. The increase reflects the impact of $23 million in Executive Budget initiatives described above and modest growth in non-audit receipts of 1.8 percent, offset by a $5 million decline in audit receipts from the prior year. Receipts for 2007-08 also include $80 million in anticipated receipts from the Insurance Department.

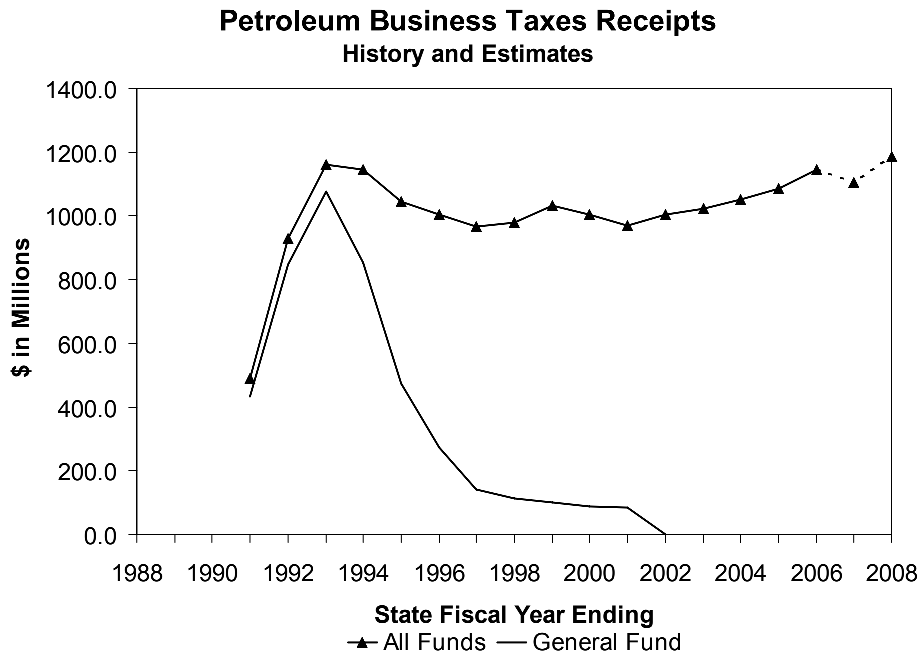
Other Funds

Insurance tax receipts from the MTA surcharge that are deposited to MTOAF generally reflect the trends described above. MTOAF insurance tax receipts for 2006-07 reflect year-to-date trends and are estimated at $113 million (including $7 million in audit receipts). Surcharge receipts for 2007-08 of $109 million reflect the trends described above, and include $6 million in audit receipts. The Executive Budget initiative related to cooperative insurance companies is anticipated to have no impact on surcharge receipts.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	1,145.7	1,105.8	(39.9)	(3.5)	1,184.6	78.8	7.1
All Funds	1,145.7	1,105.8	(39.9)	(3.5)	1,184.6	78.8	7.1

Note: Totals may differ due to rounding.



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)										
	Gross General Fund	Refunds	General Fund	Gross Special Revenue Funds	Refunds	Special Revenue Funds[1]	Gross Capital Projects Funds[2]	Refunds	Capital Projects Funds[2]	All Funds Receipts
1997-98	116	2	114	396	8	388	487	10	477	979
1998-99	103	1	102	423	5	418	519	6	513	1033
1999-2000	90	1	89	415	5	410	512	6	506	1005
2000-01	88	2	86	405	9	396	501	12	489	971
2001-02	0	0	0	459	10	449	566	12	554	1003
2002-03	1	0	1	462	8	454	578	10	568	1023
2003-04	0	0	0	478	6	472	587	7	580	1052
2004-05	0	0	0	492	6	486	607	8	599	1085
2005-06	0	0	0	523	9	514	642	10	632	1146
Estimated										
2006-07	0	0	0	500	7	493	621	8	613	1106
2007-08	0	0	0	535	7	528	665	8	657	1185

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

PROPOSED LEGISLATION

No new legislation for these taxes is proposed in this Budget.

DESCRIPTION

Tax Base and Rate

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate.

Under tax rate indexing, annual adjustments are made on January 1 of each year to the base and supplemental tax rates to reflect the change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. Tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires, in general, that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the percentage change in the index.

Based on changes in the petroleum PPI, the PBT rate index for 2006 increased by 5 percent and increased by another 5 percent on January 1, 2007. The petroleum PPI is projected to decrease by 1.6 percent through August 2007, triggering a projected PBT rate index decrease of 1.6 percent on January 1, 2008. (See Table 1 and 2)

TABLE 1
PETROLEUM BUSINESS TAX RATES FOR 2006 - 2008
(cents per gallon)

	2006			2007			2008*		
Petroleum Products	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total**
Automotive fuel									
Gasoline and other non diesel	9.60	6.30	**15.90**	10.00	6.60	**16.60**	9.80	6.50	**16.30**
Diesel	9.60	4.55	**14.15**	10.00	4.85	**14.85**	9.80	4.75	**14.55**
Aviation gasoline	9.60	6.30	**15.90**	10.00	6.60	**16.60**	9.80	6.50	**16.30**
Net rate after credit	6.30	0.00	**6.30**	6.60	0.00	**6.60**	6.50	0.00	**6.50**
Kero-jet fuel	6.30	0.00	**6.30**	6.60	0.00	**6.60**	6.50	0.00	**6.50**
Non-automotive diesel fuels	8.60	6.30	**14.90**	9.00	6.60	**15.60**	8.90	6.50	**15.40**
Commercial gallonage after credit	8.60	0.00	**8.60**	9.00	0.00	**9.00**	8.90	0.00	**8.90**
Nonresidential heating after credit	4.60	0.00	**4.60**	4.90	0.00	**4.90**	4.80	0.00	**4.80**
Residual petroleum products	6.60	6.30	**12.90**	6.90	6.60	**13.50**	6.80	6.50	**13.30**
Commercial gallonage after credit	6.60	0.00	**6.60**	6.90	0.00	**6.90**	6.80	0.00	**6.80**
Nonresidential heating after credit	3.60	0.00	**3.60**	3.70	0.00	**3.70**	3.70	0.00	**3.70**
Railroad diesel fuel	9.60	4.55	**14.15**	10.00	4.85	**14.85**	9.80	4.75	**14.55**
Net rate after exemption/refund	8.30	0.00	**8.30**	8.70	0.00	**8.70**	8.50	0.00	**8.50**

** Projected — A projected fuel price decrease of 1.6 percent through August 2007 will result in a decrease of 1.6 percent in the PBT index on January 1, 2008.*

TABLE 2
FUEL PRICE AND PETROLEUM BUSINESS TAX RATE INDEX
(percent change)

Year	Petroleum PPI	PBT Rate Index
1998	7.96	5.00
1999	(18.60)	(5.00)
2000	(7.85)	(5.00)
2001	55.84	5.00
2002	13.08	5.00
2003	(19.51)	(5.00)
2004	27.01	5.00
2005	12.94	5.00
2006	35.10	5.00
2007	36.01	5.00
2008*	(1.60)	(1.60)

* Estimated

The Motor Fuel Tax section contains a table showing New York's combined fuel tax rank among the 50 states and the District of Columbia.

Administration

The tax is collected monthly in conjunction with the State motor fuel taxes (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly along with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax).

Under 1992 legislation, businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their tax liability for the first 22 days of the month within three business days after that date. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the first 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

Tax Expenditures

Specifically exempted from Article 13-A taxes are fuels used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, sales for export from the State, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel. For further expenditure items related to the PBT, see the *New York State Tax Expenditure Report*.

Significant Legislation

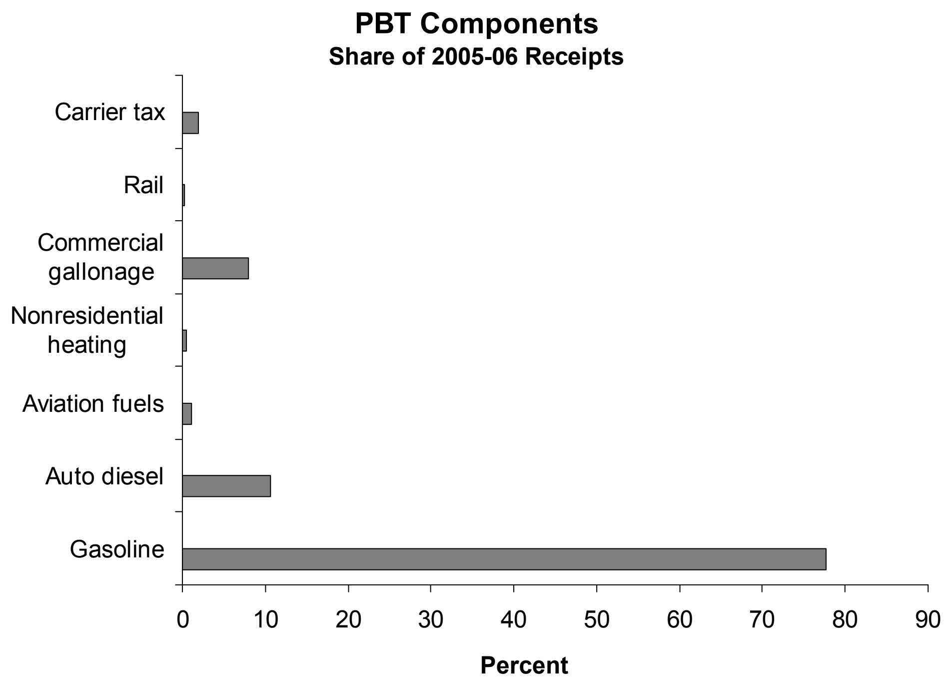
The significant statutory changes to this tax source since 1990 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1990		
Replace gross receipts tax	Converted the tax from a gross receipts basis to a cents-per-gallon basis. The tax no longer applied to kerosene, bunker fuel or liquid petroleum gasoline.	September 1, 1990
Business Tax Surcharge	Imposed a business surcharge at a rate of 15 percent for two years and ten percent for one year.	June 1, 1990
Lubricating Oil Tax	Imposed a tax of 10 cents per quart on lubricating oil.	September 1, 1990
Legislation Enacted in 1992		
Tax Liability	Required businesses with yearly motor fuel and petroleum business tax liability of more than $5 million to remit, using electronic funds transfer, their tax liability for the first 22 days of the month, within three business days after that date. Taxpayers can choose to make either a minimum payment of three fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the 22 days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.	December 1, 1992
Legislation Enacted in 1993		
Fund Distribution	The majority of PBT receipts were primarily directed to the General Fund in years past. Since 2001, none of these receipts was directed to this Fund. The majority of funds are directed to the Dedicated Funds Pool, which is split between the Dedicated Mass Transportation Fund (37 percent) and the Dedicated Highway Bridge Trust Fund (63 percent). A smaller portion is directed to the Mass Transportation Operating Assistance Fund.	1993 and after

Subject	Description	Effective Date
Legislation Enacted in 1994		
Indexing	Enacted tax rate indexing.	January 1, 1996
Business Tax Surcharge	The business tax surcharge was slowly phased-out and eliminated on June 1, 1997.	January 1, 1994
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposes the petroleum business tax on aviation gasoline upon importation, and still allow retail sellers of aviation gasoline to sell such product at a reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate.	September 1, 1995
Not-for-profit Organizations	Provided full exemption for heating fuel that is for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996
Legislation Enacted in 1996		
Railroads	Exempted diesel motor fuel used for railroads from the supplemental portion of the tax and reduced the base rate by 1.33 cents per gallon.	January 1, 1997
Commercial Heating	Provided full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating.	March 1, 1997
Manufacturing	Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing.	January 1, 1998
Diesel Supplemental Tax	Reduced by three-quarters of one cent per gallon the supplemental tax imposed on diesel motor fuel.	January 1, 1998
	Reduced by an additional one cent per gallon the supplemental tax imposed on diesel motor fuel.	April 1, 1999
Utilities	Increased by one-half cent per gallon the base tax credit for residual and distillate fuels used by utilities to generate electricity.	April 1, 1999
Legislation Enacted in 1997		
Vessels	Created a credit or refund for fuel used in vessels that was purchased in the State and consumed outside the State; clarified that the export credit/refund applies to export for use, as well as sale; stated that the legal incidence of the tax is on consumers; and limited the judicial remedies available to taxpayers.	April 1, 1984
Legislation Enacted in 1999		
Commercial Heating	Reduced by 20 percent the petroleum business tax rates on commercial gallons for space heating.	April 1, 2001
Mining and Extraction	Provided for reimbursement of petroleum business tax imposed on fuels used for mining and extraction.	April 1, 2001
Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft over flight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005
Legislation Enacted in 2005		
Enforcement Provisions	Required collection of taxes on sales to non-Native Americans on New York reservations.	March 1, 2006
Legislation Enacted in 2006		
Alternative Fuels	Exempted or partially exempted PBT on alternative fuels, including E85 and B20.	September 1, 2006

TAX LIABILITY

Petroleum business tax receipts are primarily a function of the number of gallons of fuel imported into the State by distributors. Gallonage is largely determined by overall fuel prices, the number of gallons held in inventories, the fuel efficiency of motor vehicles and State economic performance. The following chart displays the composition of PBT receipts by fuel type.



For a more detailed discussion of the methods and models used to develop estimates and projections for the petroleum business taxes, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $803.9 million, a decrease of $59.7 million, or 6.9 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $1,105.8 million, a decrease of $39.9 million, or 3.5 percent below last year.

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are estimated to follow the same consumption trends as fuel subject to the motor fuel excise tax (see section titled Motor Fuel Tax). Residual fuels used by utilities have decreased significantly due to the increase in the relative price of residual fuel oil compared to natural gas. For example, in the first two fiscal quarters in 2006-07, residual fuel gallonage was down by over 500 million gallons compared with the same two quarters in 2005-06. All other fuels in the PBT base are projected to decline due to high fuel prices.

The estimate for 2006-07 reflects the 5 percent increase in PBT rates that took effect on January 1, 2006, and the 5 percent increase effective January 1, 2007. This is offset by a loss of $2.7 million in receipts from 2004 legislation exempting certain uses of aviation fuel and a loss of $0.4 million in receipts from 2006 legislation that exempted certain alternative fuels from the PBT.

2007-08 Projections

All Funds receipts are projected to be $1,184.6 million, an increase of $78.8 million, or 7.1 percent above 2006-07.

Gasoline and diesel receipts are projected to increase by $61 million and $12 million, respectively. Increases in taxable gasoline and diesel gallonage are projected to be marginal. The receipts increase is generated primarily by the 5 percent in the PBT rate index effective January 1, 2007, offset by an anticipated 1.6 percent decrease in January 2008. The fiscal impact from the exemption of alternative fuels is projected to reduce receipts by 1.5 million. The enforcement provisions that require collection of tax on sales to non-Native Americans on New York reservations is projected to increase receipts by $32 million.

General Fund

Legislation enacted in 2000 provided that all remaining PBT receipts deposited in the General Fund be deposited in the Dedicated Funds Pool, effective April 1, 2001. As a result, no PBT receipts will be deposited in the General Fund in 2006-07 and 2007-08.

Other Funds

In past years, revenues from the PBT have been shared by the General Fund and the Mass Transportation Operating Assistance Fund (MTOAF). Prior to the 1990 revisions, the General Fund received 72.7 percent and MTOAF received 27.3 percent or a guaranteed amount. The 1990 statute converted the tax from a gross receipts tax to a cents-per-gallon tax, expanded the tax yield, and limited the MTOAF share to slightly more than 17.7 percent of the nonsurcharge revenues — the dollar equivalent of its share prior to the expansion. Carrier tax receipts were deposited in the General Fund until April 1, 2001.

Separate 1991 transportation legislation provided that effective April 1, 1993, 100 percent of the supplemental tax and a portion of the base tax (see Table 3), were to be split between the Dedicated Mass Transportation Trust Fund (DMTTF) and the Dedicated Highway and Bridge Trust Fund (DHBTF). Numerous pieces of legislation were enacted in subsequent years that reduced General Fund deposits and increased the amount deposited in the dedicated transportation funds.

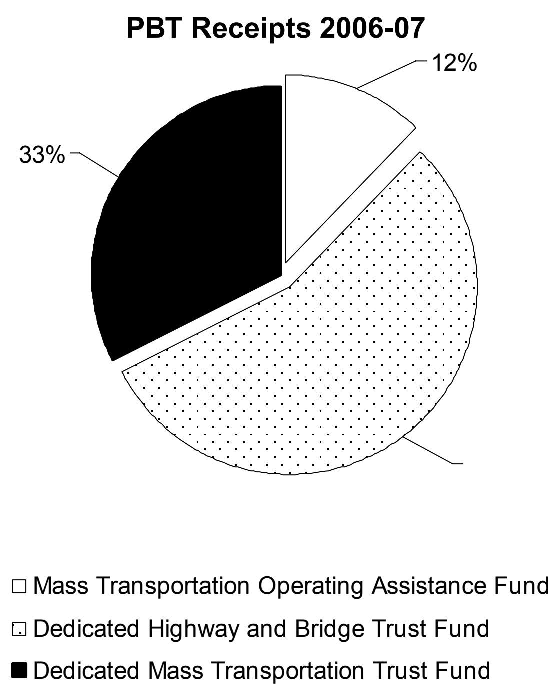
Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts previously deposited in the General Fund, including the balance of the basic tax and the carrier tax, were redistributed to the DHBTF and the DMTTF.

Statutory changes to the allocation of the PBT base tax by fund type are reported in Table 3.

TABLE 3
PBT BASE TAX FUND DISTRIBUTION
(percent)

Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
Prior to April 1, 1993	82.3	17.7	0.0
April 1, 1993	28.3	17.7	54.0
September 1, 1994	22.4	18.6	59.0
September 1, 1995	18.0	19.2	62.8
April 1, 1996	17.4	19.3	63.3
January 1, 1997	14.5	19.3	66.2
January 1, 1998	12.4	19.5	68.1
April 1, 1999	10.7	19.5	69.8
April 1, 2001	0.0	19.7	80.3

[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.
[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).



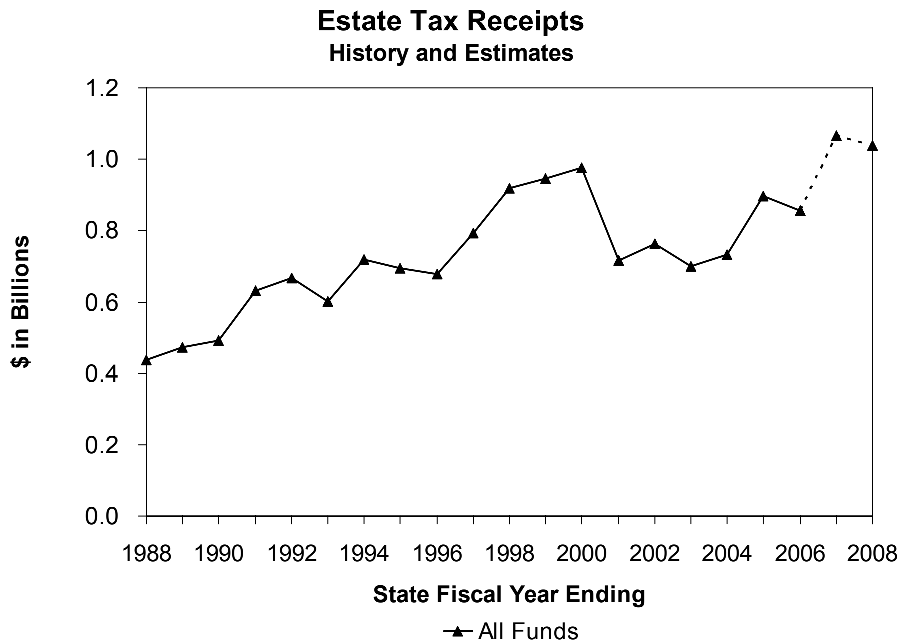
Petroleum business tax receipts in 2006-07 are estimated to be $133.5 million for MTOAF, $612.5 million for the DHBTF, and $359.7 million for the DMTTF.

Petroleum business taxes in 2007-08 are projected to provide MTOAF receipts of $142.4 million, DHBTF receipts of $656.5 million, and DMTTF receipts of $385.6 million.

ESTATE TAX

ESTATE TAX (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	854.9	1,065.4	210.5	24.6	1,039.6	(25.8)	(2.4)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	854.9	1,065.4	210.5	24.6	1,039.6	(25.8)	(2.4)

Note: Totals may differ due to rounding.



ESTATE TAX BY FUND (millions of dollars)				
	Gross General Fund	Refunds	General Fund	All Funds Receipts
1997-98	967	48	919	919
1998-99	993	47	946	946
1999-2000	1,029	54	975	975
2000-01	777	60	717	717
2001-02	791	30	761	761
2002-03	736	35	701	701
2003-04	760	28	732	732
2004-05	936	41	895	895
2005-06	892	37	855	855
Estimated				
2006-07	1,105	40	1,065	1,065
2007-08	1,080	40	1,040	1,040

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

New York imposes a tax on the estates of deceased State residents and on the part of a nonresident's estate made up of real and tangible personal property located within New York State. The New York estate tax is based on the estate tax provisions of the Federal Internal Revenue Code as amended through July 22, 1998, with New York modifications.

The tax base is calculated by first determining the value of the gross estate using Federal estate tax provisions. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, cash, insurance on the decedent's life, jointly owned property, other miscellaneous property, transfers during the decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the property not subject to claims; bequests to a surviving spouse (marriage deduction); charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the Federal credit for state death taxes to New York to arrive at the New York State estate tax.

New York's estate tax is calculated by using the Unified Rate Table and the table for computing the maximum New York State credit for state death taxes as they were in effect on July 22, 1998. The New York estate tax is equal to the amount of the credit for state death taxes which can not exceed the amount of the Federal tax based on the July 22, 1998, rates and the current State unified credit. The computation of maximum New York State credit for state death taxes is a graduated schedule with rates that range from 0.8 percent on adjusted taxable estates in excess of $40,000 but less than $90,000, to 16 percent on adjusted taxable estates for New York State of $10,040,000 or more.

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance.

If the payment of the tax will cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the tenth month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the beneficiaries who have received property are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by estate representatives are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

Since the tax is equal to the Federal credit for state death taxes, as it existed on July 22, 1998, there is only one New York specific tax expenditure, the Qualified Family Owned Business Interest Deduction which has been eliminated from the Federal estate tax but is still allowed in New York.

Significant Legislation

The significant statutory changes since 1925 to the estate tax are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1925		
Estate Tax	Imposed an estate tax.	April 2, 1925
Legislation Enacted in 1963		
Estate Tax - Conformity	Adopted applicable Federal rules for determining gross estate and allowable deductions.	April 1, 1963
Legislation Enacted in 1971		
Estate and Gift - Gift Imposition	Imposed a gift tax as Article 26-A of the Tax Law.	January 1, 1972
Legislation Enacted in 1982		
Estate and Gift - Unification	Unified the estate tax and the gift tax rates and credit.	January 1, 1983
Legislation Enacted in 1994		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,750 to $2,950, thereby eliminating the tax on taxable gifts/estates of $115,000 or below, up from $108,600.	June 9, 1994
Legislation Enacted in 1995		
Deduction	Authorized a principal residence deduction of $250,000 (maximum).	June 7, 1995

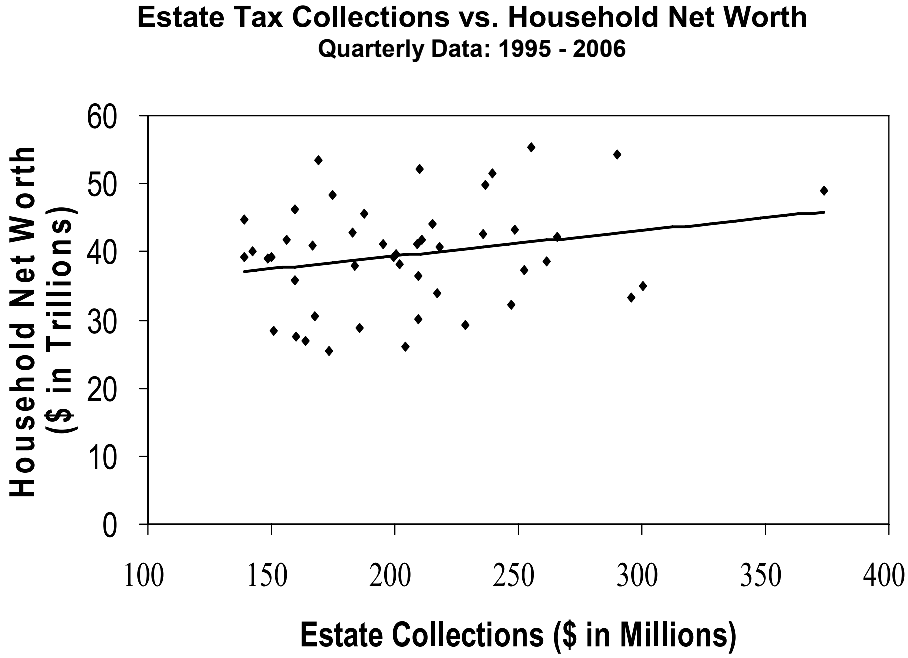
Subject	Description	Effective Date
Legislation Enacted in 1997		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable estates of $300,000 or below.	October 1, 1998
	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Set the State's unified credit to equal the Federal credit, but capped the maximum credit to exempt the first $1,000,000 of the estate.	February 1, 2000
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months.	October 1, 1998
	Increased from seven to nine months (same as Federal).	February 1, 2000
Legislation Enacted in 1998		
Closely-Held Business	Reduced interest on deferred payments of estate tax, where estate consists largely of a closely-held business, from 4 percent to 2 percent.	January 1, 1998
Legislation Enacted in 1999		
Federal Conformity	Conformed New York State law to Federal law as of July 22, 1998, except for the unified credit provisions.	August 9, 1999
Family-Owned Business Deduction	Repealed family-owned business exclusion and replaced with family-owned business deduction, conforming to Federal law changes.	December 31, 1997
Penalty and Interest	Waived penalty and interest on estate tax associated with a cause of action that was pending on the date of death, or which was associated with the decedent's death. The waiver is applicable from the date of the return disclosing the cause of action if filed.	July 13, 1999

TAX LIABILITY

The recent yield of this tax has been heavily influenced by three factors: 1) tax law changes, 2) annual variations in the relatively small number of large estates, and 3) the value of the equity market, given the large component of corporate stock in large taxable estates. Recent tax law changes have reduced estate tax collections across the board and thousands of the smallest estates have been effectively exempt from the tax. As a result, the volatility in receipts from this source is expected to increase, due to the more random nature of collections from large estates.

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

For a more detailed discussion of the methods and models used to develop estimates and projections for estate tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $908.5 million, an increase of $222.8 million, or 32.5 percent above the comparable period in the prior fiscal year.

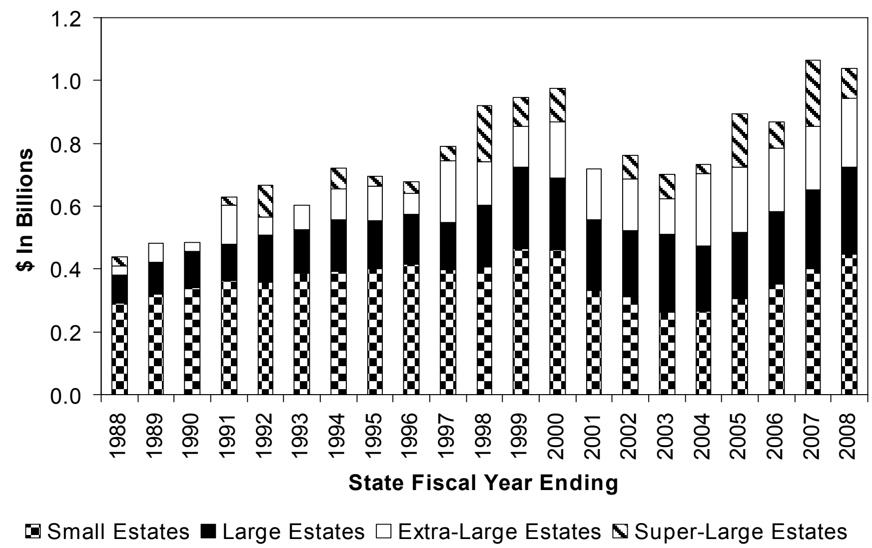
CARTS collections through nine months of 2006-07 are $54.4 million, an increase of $30.2 million from the same period of 2005-06. Year-to-date refunds for 2006-07 are $37.5 million, or 2.6 percent above the same period of 2005-06.

All Funds receipts for 2006-07 are estimated to be $1,065 million, an increase of $211 million, or 24.6 percent above last year.

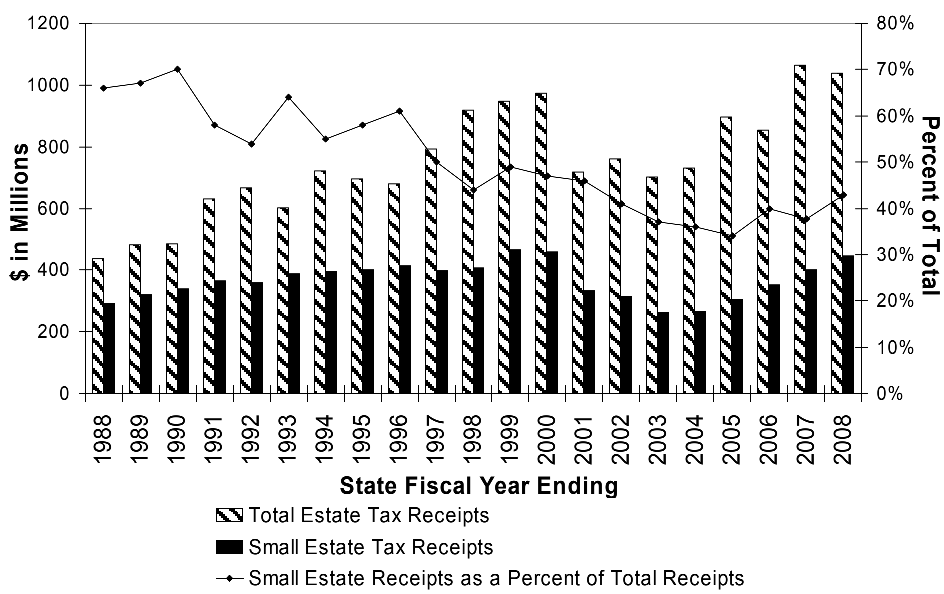
Small estate (less than $0.5 million in payments) year-to-date collections are $319.2 million, an increase of $59.2 million, or 22.8 percent from the comparable period in 2005-06. Small estate receipts for 2006-07 are estimated at $401.9 million, an increase of $49.4 million, or 14.0 percent above 2005-06. Small estates receipts have grown as increases in net worth have increased the number of estates with a value in excess of the unified credit. Large estates (less than $4 million in payments) are estimated to increase to $249.6 million, reflecting the 18 percent increase in receipts during the first nine months of 2006-07 from collections during the first nine months of 2005-06.

Receipts from extra-large estates (less than $25 million in payments) are estimated to decrease from 2005-06 levels to $202.5 million. The number of extra-large payments received during the first nine months of 2006-07 increased by 33 percent from the first nine months of last year, although the average payment size was more than $2.0 million less than in 2005-06. Super-large payments (greater than $25 million) received year-to-date are $211.4 million. No additional payments are anticipated for the remainder of the year.

New York State Estate Tax Receipts



New York State
Total Estate Tax Receipts vs. Receipts from Small Estates



2007-08 Projections

All Funds receipts are projected to be $1,040 million, a decrease of $26 million, or 2.4 percent below 2006-07. The estimate includes CARTS collections of $30 million and refunds of $40 million.

Super-large estate payments are projected to decrease by $115.8 million, or 54.8 percent, to $95.6 million. The payments from extra-large estates are expected to increase to $220.2 million. The projections for the super-large and extra-large estates are based upon a distributional analysis, which suggests the number of estates in these categories will return to average levels in 2007-08.

Large estate payments are estimated to increase 11.1 percent, to $277.3 million. Small estate payments are projected to increase by $44.6 million, or 11.1 percent. The estimate for small estates is based on expected changes in the stock market and the average value of a single family home in New York. Small and large estates are projected to grow due to continued growth in asset values and increases in the number of estate tax payments in these categories.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

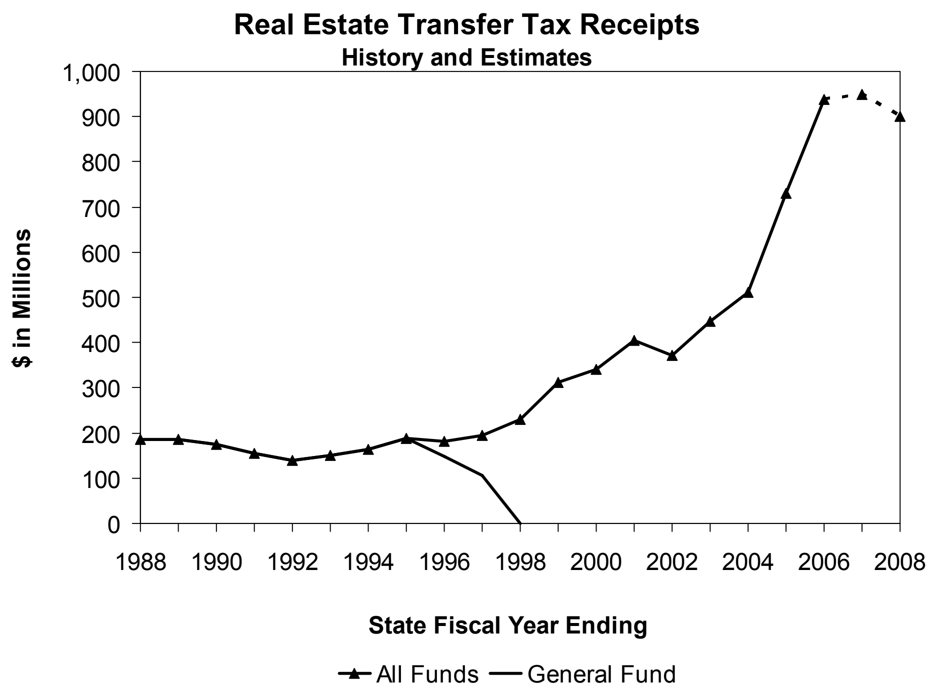
	Super-Large[1] and Extra- Large[2] Estates		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Taxes	Taxes
1996-97	24	243.0	123	51.3	397.3	791.6
1997-98	23	317.4	160	195.5	406.4	919.3
1998-99	19	221.8	215	259.5	465.1	946.4
1999-2000	24	285.0	192	229.6	460.6	975.2
2000-01	22	160.0	179	224.7	332.4	717.1
2001-02	21	240.1	167	208.8	312.5	761.4
2002-03	16	190.5	200	247.6	262.8	700.9
2003-04	26	259.1	169	209.1	264.1	732.3
2004-05	25	377.9	191	212.9	304.5	895.3
2005-06	25	289.7	173	223.1	342.1	854.9
Estimated						
2006-07	32	413.9	225	249.6	401.9	1,065.4
2007-08	25	315.8	235	277.3	446.5	1,039.6

[1] Payment of at least $25.0 million.
[2] Payment of at least $4.0 million, but less than $25.0 million.
[3] Payment of at least $0.5 million, but less than $4.0 million.
[4] Payment less than $0.5 million. (Small estates include all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	938.1	950.0	11.9	1.3	900.0	(50.0)	(5.3)
All Funds	938.1	950.0	11.9	1.3	900.0	(50.0)	(5.3)

Note: Totals may differ due to rounding.



REAL ESTATE TRANSFER TAX BY FUND (millions of dollars)					
	Capital Projects Funds[1]	Gross Debt Service Funds[2]	Refunds	Debt Service Funds[2]	All Funds Receipts
1997-98	87	143	0	143	230
1998-99	112	200	0	200	312
1999-2000	112	229	1	228	340
2000-01	112	293	0	293	405
2001-02	112	259	0	259	371
2002-03	112	336	0	336	448
2003-04	112	398	1	397	509
2004-05	112	618	1	618	730
2005-06	112	827	1	826	938
Estimated					
2006-07	147	804	1	803	950
2007-08	212	689	1	688	900

[1] Enviornmental Protection Fund.
[2] Clean Water/Clean Air Bond Debt Sevice Fund.

PROPOSED LEGISLATION

No new legislation for these taxes is proposed with this budget.

DESCRIPTION

Tax Base and Rate

The New York State real estate transfer tax is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds $500, at a rate of $4 per $1,000 of consideration (price). The tax became effective August 1, 1968. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. Effective July 1, 1989, an additional 1 percent tax was imposed on residential conveyances for which the consideration is $1 million or more.

Administration

Typically, the party conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance ("central office" collections). All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth day of the month following their receipt. Although the county payment schedule is statutory, it is not useful for predicting monthly cash flows, due to the unpredictable payment behavior of some large counties.

Tax Expenditures

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITs) is $2 per $1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Other significant exemptions from the tax are: conveyances pursuant to the Federal bankruptcy act and mere change of identity conveyances. A deduction from taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one-, two-, or three-family house or individual residential condominium unit.

TAX LIABILITY

Real estate transfer tax receipts are a function of the number of conveyances and the consideration per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the Real Estate Transfer Tax, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $768.2 million, an increase of $3.9 million, or 0.5 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $950.0 million, an increase of $11.9 million, or 1.3 percent above the prior fiscal year.

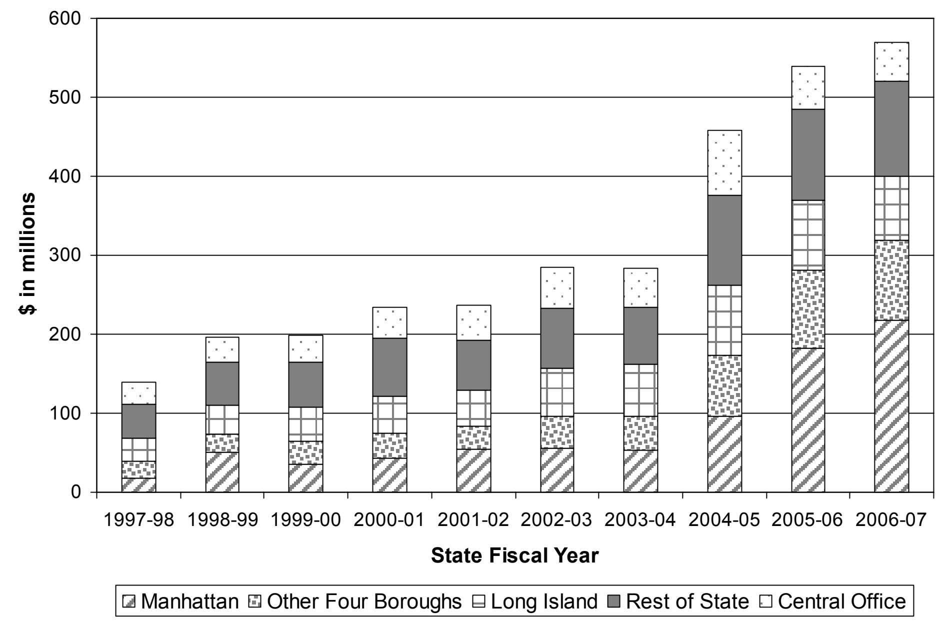
The recent boom in the housing market, spurred by record-low mortgage rates that began in 2002-03, continued (though at a slower rate of growth) into the current fiscal year. However, the accelerating rate of growth has slowed reflecting weakness in the residential market. The mansion tax has played an increasing role in the rapid growth in receipts that has characterized recent fiscal years. As average residential home prices have increased, so too has the proportion of homes priced in excess of $1 million. In State fiscal year 1998-99, the mansion tax accounted for 11.3 percent of all real estate transfer tax receipts. By State Fiscal Year 2004-05, this share had increased to 26.0 percent and falling somewhat to 23.0 percent in 2005-06.

The following table compares tax liability by location through October of this fiscal year and 2005-06.

FISCAL YEAR LIABILITY THROUGH OCTOBER (millions of dollars)

Region	2005-06 Liability	2006-07 Liability	Percent Change
Manhattan	181.7	217.7	19.8
Other Four Boroughs	99.1	101.4	2.3
Long Island	88.2	80.4	(8.8)
Rest of State	116.3	120.9	3.9
Central Office	53.7	49.4	(8.0)

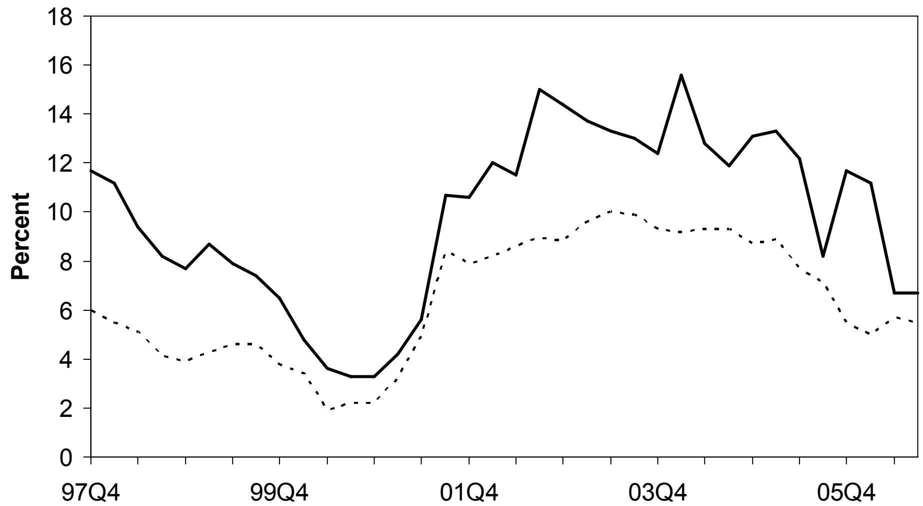
Fiscal Year Liability Through October



Much of the recent strength in tax collections has come in the increased volume and value of downstate commercial real estate sales. It is estimated that at least 30 percent of 2005-06 collections were a result of commercial real estate sales.

To date, the Manhattan commercial market remains strong (see vacancy rates in Manhattan). Vacancy rates are marginally lower than they were at this time last year. Downtown, the vacancy rate was 6.7 percent during the third quarter of 2006-07, versus 8.2 percent during the same period last year. The midtown rate fell from 7.1 percent to 5.5 percent during the same period. Anecdotal evidence suggests that foreign investors may be bidding up commercial prices in New York City as a result of the weak U.S. dollar.

Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

Downtown Midtown

2007-08 Projections

All Funds receipts for 2007-08 are estimated to be $900.0 million, a decrease of $50.0 million, or 5.3 percent below the prior fiscal year. Due to the volatile nature and current dependence on the commercial market and due to the projected 12 percent drop in New York housing starts, a cautious approach has been taken for the 2007-08 estimate.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2006-07 or 2007-08. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund. In 2006-07 and 2007-08, it is expected that $682.0 million and $559.9 million, respectively, will be transferred to the General Fund.

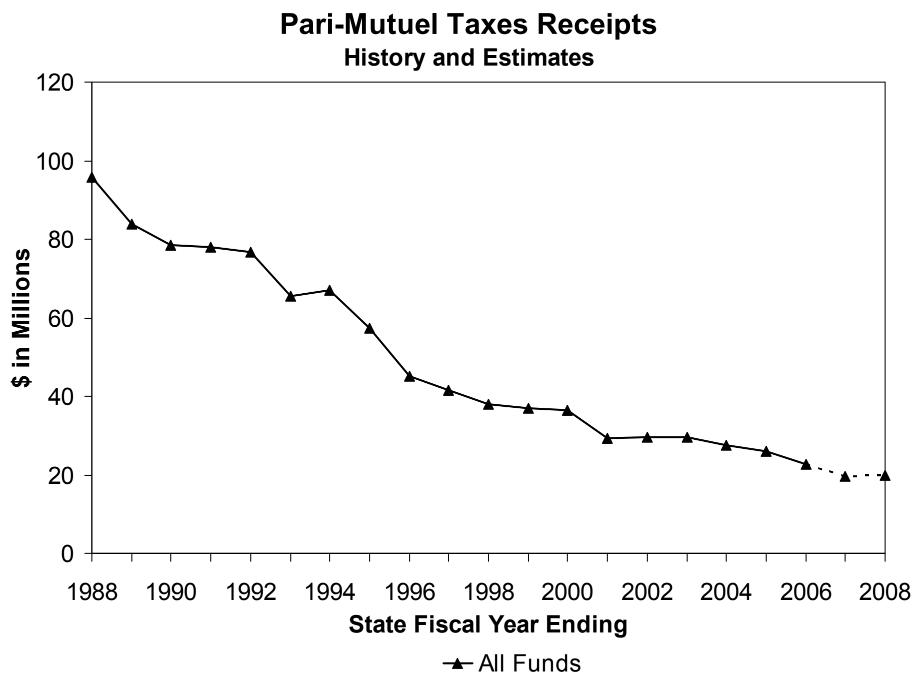
Other Funds

During 2006-07, the statutory amount of real estate transfer tax receipts to be deposited in to the Environmental Protection Fund is $147.0 million. During 2007-08, the statutory amount of real estate transfer tax receipts to be deposited in to the Environmental Protection Fund will be $212.0 million. The remainder of real estate transfer tax receipts, estimated at $803.0 million in 2006-07 and $688.0 million in 2007-08, is to be deposited in the Clean Water/Clean Air Bond Debt Service Fund.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	22.7	19.7	(3.0)	(13.1)	20.0	0.3	1.5
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Note: Totals may differ due to rounding.



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds
	Flat	Harness	OTB	Receipts
1997-98	19,329	1,013	18,022	38,364
1998-99	18,643	923	17,355	36,921
1999-2000	17,218	795	18,356	36,369
2000-01	14,152	750	14,444	29,346
2001-02	10,525	852	18,269	29,646
2002-03	10,559	803	18,094	29,456
2003-04	9,999	796	16,694	27,489
2004-05	9,257	426	16,346	26,029
2005-06	5,736	258	16,673	22,667
Estimated				
2006-07	6,100	400	13,200	19,700
2007-08				
Current Law	4,300	500	20,200	25,000
Proposed Law	4,300	500	15,200	20,000

PROPOSED LEGISLATION

Legislation proposed with this Budget would extend expiring provisions of the Racing, Pari-Mutuel Wagering and Breeding Law for a period of one year, including provisions authorizing in-home simulcasting and provisions governing the simulcasting of out-of-state races.

DESCRIPTION

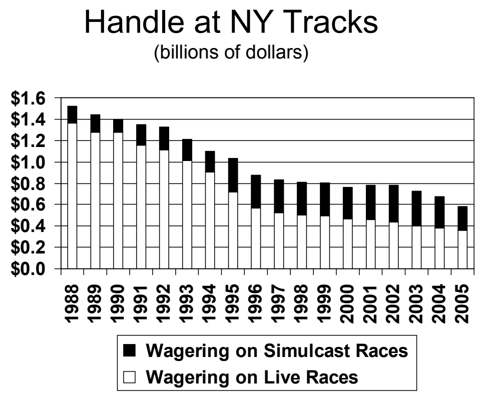
Tax Base and Rate

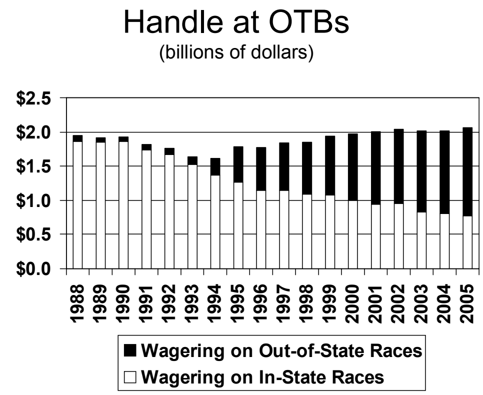
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off-Track Betting Corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-Track Betting Corporation). The average effective pari-mutuel tax rate was 1.03 percent of the handle in 2005.

In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds.

With the increase in OTB activity and simulcasting over the last 20 years, off-track bets now account for 75 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks.

To promote growth of the industry, the State has authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by as much as 90 percent at thoroughbred and harness tracks, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, lowered the tax rates on simulcast wagering, redirected the State franchise fee on nonprofit racing associations to repay loans from the New York State Thoroughbred Capital Investment Fund, and reduced tax rates on NYRA bets. In 2001, the State authorized the operation of video lottery terminals, at authorized racetracks, and directed a portion of VLT receipts to be used for purse enhancements and for the breeders funds.





Administration

The New York State Racing and Wagering Board has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. The racetracks and OTBs calculate the pari-mutuel tax owed to the State based upon the handle, then remit the taxes to the Department of Taxation and Finance as prescribed by law.

Significant Legislation

The significant statutory changes to this tax source since 1940 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1940		
Imposed Pari-Mutuel Tax	Authorized pari-mutuel betting and imposed a pari-mutuel tax.	March 31, 1940
Legislation Enacted in 1973		
Off-Track Betting	Authorized off-track betting and the creation of regional off-track betting corporations.	July 1, 1973
Legislation Enacted in 1984		
Simulcasting	Authorized the simulcasting of horse racing.	July 1, 1984
Legislation Enacted in 1994		
Expanded Betting	Authorized widespread in-home simulcasting experiments, simulcasts of flat racing bridging the time gap between the end of New York flat racing and the beginning of harness racing, and tripled the number of out-of-State harness track simulcasts.	July 6, 1994
Breakage	Allotted the State's share of all OTB breakage to horse breeding funds.	July 6, 1994
Legislation Enacted in 1995		
Tax Rates	Lowered rate on regular bets (involving one horse) at NYRA from 5 percent to 4 percent and reduced the tax on NYRA wagers at OTBs: from 1.1 percent to 0.5 percent on regular and multiple (involving two horses) bets, and from 3.1 percent to 1.5 percent on exotic (involving three or more) bets.	June 1, 1995
Takeout	Increased the takeout on NYRA wagers involving two horses (multiple bet) from 17 percent to 20 percent, while lowering the takeout on NYRA wagers involving one horse (regular bet) from 17 percent to 15 percent.	June 1, 1995
Legislation Enacted in 1997		
Franchise Fee	Redirected the payment of NYRA franchise fee to repay debts owed to the New York State Thoroughbred Racing Capital Improvement Fund.	January 1, 1998

Subject	Description	Effective Date
Legislation Enacted in 1998		
Tax Rates	Established the rate on all simulcast races at 1.5 percent for the initial race of the day and at 1.0 percent for later races, if NYRA is running. If NYRA is not racing, the rate on these races are 1.0 percent and 0.5 percent, respectively.	January 1, 1998
	Extended authorizations for lower tax rates for on-track and off-track bets on NYRA through June 30, 2002.	
Legislation Enacted in 1999		
Tax Rates	Cut the rate on all NYRA bets to 2.6 percent.	September 10, 1999
	Cut the rate on all NYRA bets to 1.6 percent.	April 1, 2001
Legislation Enacted in 2001		
Expanded Simulcasting	Lowered the takeout on NYRA races, decreased the percentage of takeout going to purses, allowed a "pick six" wager, provided two contemporaneous out-of-State simulcast signals during the Saratoga meeting, and provided a third out-of-State contemporaneous simulcast signal during the winter months and provided lower State tax rates for the additional simulcast racing.	June 12, 2001
Legislation Enacted in 2002		
Extended Expiring Laws	Extended to July 1, 2007, simulcasts for thoroughbred and harness racing, in-home simulcasts, telephone accounts and telephone wagering, simulcasts of out-of-State races, and current tax rates for off-track betting corporations.	June 17, 2002
	Extended the NYRA franchise to December 31, 2012, provided that Aqueduct racetrack commences video lottery gaming on April 1, 2003.	January 28, 2002
Legislation Enacted in 2003		
NYRA Franchise	Extended franchise to December 31, 2013, provided that VLTs are in operation at the Aqueduct raceway on or before March 1, 2004. If NYRA is not able to initiate VLT operation by that date, then the NYRA franchise will expire on December 31, 2007.	January 29, 2003
Regulatory Fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.50 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005
Legislation Enacted in 2006		
Rate Reduction	Lowered the tax rate on regular, multiple and exotic bets for wagering on NYRA races at OTBs and wagering on thoroughbred races at simulcast theaters by 0.2 percentage points. The tax rates on all regular, multiple and exotic bets on out-of-state simulcasts placed between April 1, 2006 and March 31, 2007 are lowered by 0.2 percentage points and the distribution from wagers on these races to the thoroughbred breeder's fund is increased by 0.2 percentage points.	April 1, 2006

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.

For a more detailed discussion of the methods and models used to develop estimates and projections for the pari-mutuel taxes, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $16.4 million, a decrease of $1.9 million, or 9.1 percent below the comparable period in the prior fiscal year. All Funds receipts for 2006-07 are estimated to be $19.7 million, a decrease of $3.0 million, or 13.1 percent below last year.

The impact of the one-year tax rate reduction on thoroughbred wagering is the largest contributor to the decline in receipts in 2006-07. Year-to-date receipts from off-track betting have decreased $2.4 million or 19.3 percent from the comparable period in 2005-06. Receipts from OTBs are estimated at $13.2 million for 2006-07, a decrease of $3.5 million or 20.9 percent over the prior fiscal year.

Year-to-date collections from thoroughbred on-track handle, including simulcasts, is $5.9 million, an increase of $0.4 million or 5.3 percent from the same period last year. A portion of the weakness in on-track handle is attributable to the ongoing financial difficulties being experienced by NYRA. As a result, NYRA failed to make all of its tax payments in 2005-06, and has missed payments in 2006-07.

Receipts of pari-mutuel taxes from on-track harness wagering are estimated to be $400,000 in 2006-07, up $142,000, or 55.0 percent from 2005-06. The increase in receipts reflects the reopening of Yonkers Raceway, Vernon Downs, and Tioga Downs in 2006.

2007-08 Projections

Under current law, All Funds receipts are projected to be $25.0 million, an increase of $5.3 million, or 26.9 percent above 2006-07 estimates. This increase is due to the expiration of lower tax rates, which include reduced rates on the simulcasting of out-of-state thoroughbred and harness racing at OTBs. In addition, the one-year reduction on thoroughbred wagering in effect for the 2006-07 fiscal year will expire, except for the permanent reduction on wagering on NYRA races wagered at OTBs.

Under proposed law, All Funds receipts are projected to increase $0.3 million, to $20.0 million. Proposed law would extend reduced simulcasting tax rates, except those passed in 2006.

The OTB handle is projected to continue to increase in 2007-08, and receipts will also increase due to the expiration of the one-year reduction on out-of-state thoroughbred wagering, generating tax receipts of $15.2 million. The rate reduction on wagers on NYRA races enacted in 2006 was permanent and will remain in effect.

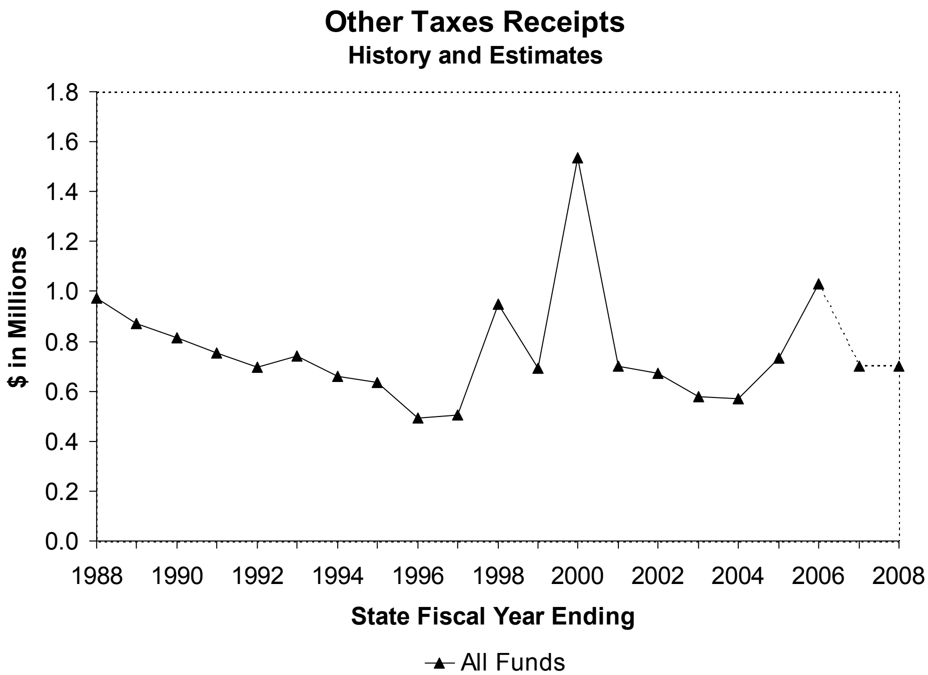
On-track thoroughbred receipts are projected to total $4.3 million, a decrease of $1.8 million, or 30 percent. The current financial condition of the New York Racing Association (which has recently filed for bankruptcy) and the status of the racing franchise makes receipt of a full-year payment of NYRAs tax liability uncertain. For the purposes of this estimate, we have assumed a repeat of the payment pattern experienced during the 2005-06 fiscal year. Should the situation change, the estimates will need to be revised.

Receipts from harness racing are expected to increase by $100,000 to $500,000 reflecting the full year operation of Yonkers Raceway, Vernon Downs, and Tioga Downs in 2007-08.

OTHER TAXES

OTHER TAXES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	1.0	0.7	(0.3)	(32.0)	0.7	0.0	0.0
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	1.0	0.7	(0.3)	(32.0)	0.7	0.0	0.0

Note: Totals may differ due to rounding.



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds
	Admissions	Exhibitions	Receipts
1997-98	310	639	949
1998-99	294	400	694
1999-2000	299	1,238	1,537
2000-01	289	412	701
2001-02	285	388	673
2002-03	319	259	578
2003-04	344	226	570
2004-05	379	352	731
2005-06	474	556	1,030
Estimated			
2006-07	375	325	700
2007-08	375	325	700

PROPOSED LEGISLATION

No new legislation for these taxes is proposed with this Budget.

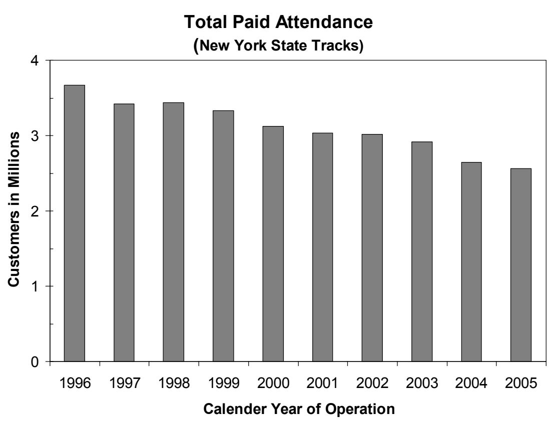
DESCRIPTION

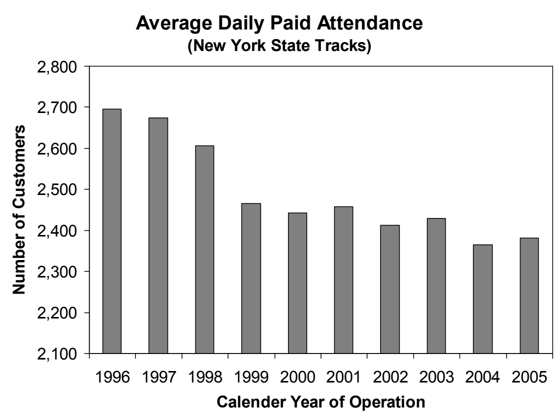
Tax Base and Rate

Racing Admissions Tax — A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks (see charts below) and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

Boxing and Wrestling Exhibitions Tax — A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A heavyweight championship fight, which is an event of high spectator interest, can impact the yield of the tax substantially, causing receipts to vary considerably from year to year.

The racing admissions tax rate is 4 percent of the admissions charge and the boxing and wrestling exhibitions tax rate is 3 percent.





Administration

The New York State Racing and Wagering Board administers the collection of the racing admissions tax. It also has general jurisdiction over all horseracing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in racing activities in New York.

The Department of Taxation and Finance is responsible for collecting the receipts of the boxing and wrestling exhibitions tax.

Significant Legislation

In 1999, the tax rate on boxing and wrestling exhibitions was reduced from 5.5 percent to 3 percent with a $100,000 cap per exhibition.

TAX LIABILITY

The major factor that affects racing admissions tax liability is the number of customers who attend on-track races; this is dependent on factors such as the weather and competition from other types of gambling or non-gambling entertainment.

The wrestling and boxing exhibitions tax can be affected by the importance of the events staged in a given fiscal year and by the degree of competition at other types of entertainment venues.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

All Funds collections to date are $628,798, a decrease of $271,098 or 30.1 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2006-07 are estimated to be $700,000, a decrease of $330,000, or 32 percent below last year. The decrease in receipts reflects the loss of one-time receipts from two pay-per-view wrestling events held in New York State in 2005-06, and the hosting of the Breeder's Cup in October 2005.

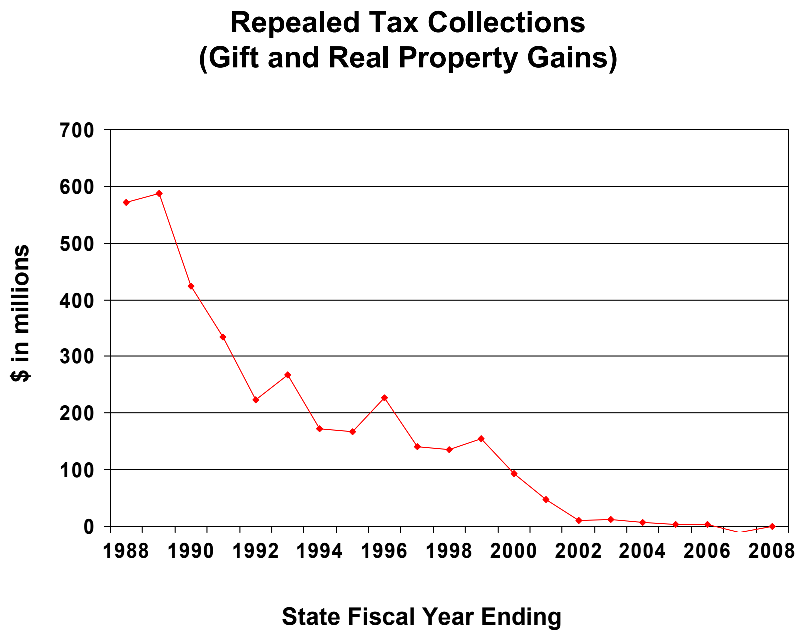
2007-08 Projections

All Funds receipts are projected to remain at $700,000, the same total as for 2006-07. The number of boxing and wrestling exhibitions in New York State is expected to remain at historic levels. Paid attendance at race tracks is expected to remain at a level consistent with 2006-07 levels.

REPEALED TAXES

REPEALED TAXES (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	2.9	(9.9)	(12.8)	(441.4)	0.0	9.9	(100.0)
Other Funds	0.0	0.0	0.0	0.0	0.0	0.0	0.0
All Funds	2.9	(9.9)	(12.8)	(441.4)	0.0	9.9	(100.0)

Note: Totals may differ due to rounding.



REPEALED TAXES BY FUND (thousands of dollars)				
	Gross General Funds	Refunds	General Fund	All Funds Receipts
1997-98	201,143	38,572	135,532	135,532
1998-99	184,301	11,309	154,033	154,033
1999-2000	109,442	15,107	94,327	94,327
2000-01	53,183	5,548	47,628	47,628
2001-02	11,120	1,120	10,000	10,000
2002-03	12,623	732	11,891	11,891
2003-04	7,676	275	7,401	7,401
2004-05	5,000	1,200	3,800	3,800
2005-06	2,937	1	2,936	2,936
Estimated				
2006-07	2,279	12,176	(9,896)	(9,896)
2007-08	0	0	0	0

GIFT TAX

Until it was repealed on January 1, 2000, New York imposed a gift tax as a complement to the transfer tax on estates to equalize the tax burden on lifetime transfers. Like the estate tax, the base of this levy was derived from the Federal tax base, with exclusions for transfers of property located outside the State. The tax was imposed on a lifetime basis. Taxable gifts made during a taxpayer's lifetime, after allowable exclusions, were taxed in aggregate as one gift.

2006-07 Receipts and 2007-08 Projections

All Funds collections to date are $1.58 million with refunds of $11.9 million. All Funds net gift tax receipts to date are a negative $10.3 million. In August, an extraordinary gift tax refund was processed.

Given results to date, All Funds receipts for 2006-07 are estimated to be a negative $10.3 million. No receipts are expected for 2007-08 or for any subsequent fiscal year.

REAL PROPERTY GAINS TAX

The real property gains tax, enacted in 1983, was repealed on July 13, 1996. All property transferred after June 15, 1996, is exempt from the provisions of the real property gains tax. This tax was levied at a rate of 10 percent of the gain from sales of New York commercial property of $1 million or greater, including anything of value arising from land ownership, such as air rights or zoning credits. Remaining collections stem primarily from assessments on prior year tax liability and from deferred installment payments for tax liability arising from sales of condominium and cooperative housing for projects that were still being sold at the time of the gains tax repeal.

2006-07 Receipts and 2007-08 Projections

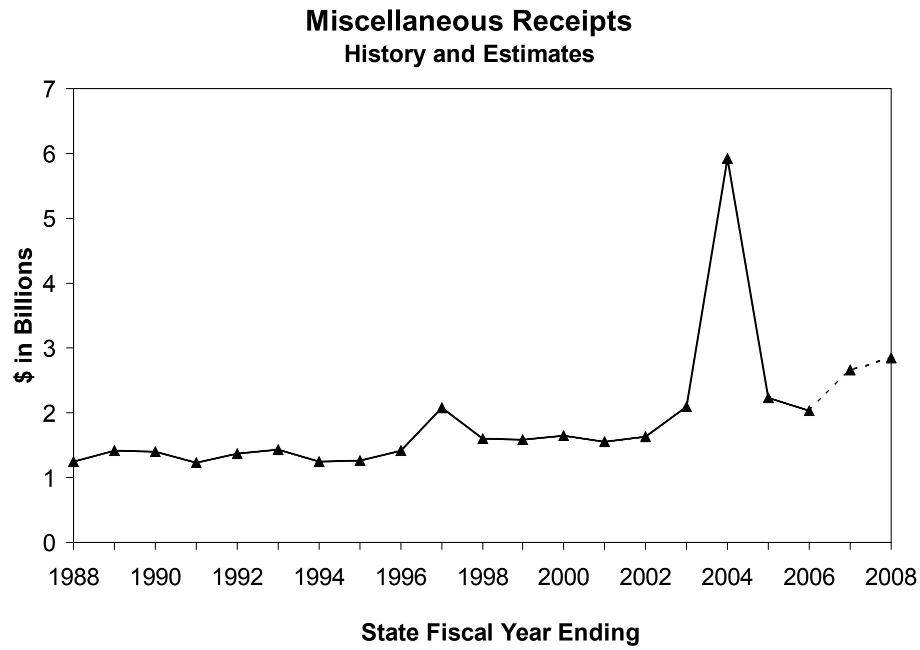
To date, All Funds collections are $0.7 million, with an additional $0.1 million expected by the end of the State fiscal year. Refunds for this year have totaled $0.3 million. As a result, net real property gains tax collections for 2006-07 are estimated to be $0.4 million.

No receipts are expected for 2007-08 or for any subsequent fiscal year.

MISCELLANEOUS RECEIPTS GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	2,028.4	2,664.7	636.3	31.4	2,850.7	186.0	7.0

Note: Totals may differ due to rounding.



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	2003-04	2004-05	2005-06	2006-07 Estimated	2007-08 Projected
Licenses, Fees, Etc.	498.2	563.2	577.1	683.7	844.6
Abandoned Property	606.1	568.6	547.4	700.0	634.0
Reimbursements	169.6	152.0	227.8	170.8	199.8
Investment Income	5.0	12.0	97.9	210.0	150.0
Other Transactions*	4647.2	930.0	578.2	900.2	1022.3
Total	5926.1	2225.8	2028.4	2664.7	2850.7

* Includes proceeds from tobacco securitization.

PROPOSED LEGISLATION

No new legislation for General Fund miscellaneous receipts is proposed with this Budget.

DESCRIPTION

Miscellaneous receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, licenses, fines, and various reimbursements to the State's General Fund. Each year, the reported receipts may be significantly impacted by various nonrecurring transactions.

SIGNIFICANT LEGISLATION

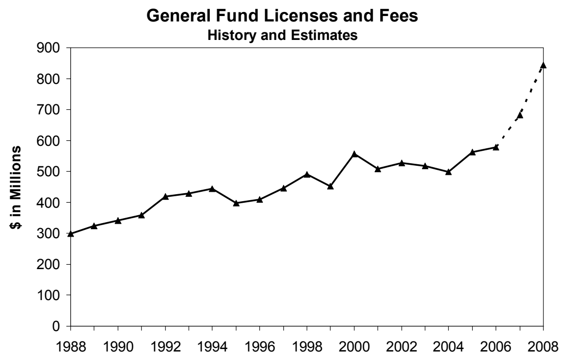
The significant statutory changes since 1994 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1994
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1994
Legislation Enacted in 1995		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1995
Love Canal Claims	Provided for the deposit into the General Fund of moneys received from settlement of Love Canal claims.	April 1, 1995
Power Authority of NY	Provided for the one-time payment to the General Fund of $15.9 million in lieu of annual payments.	April 1, 1995
Legislation Enacted in 1996		
Assessments	Extended for one year the current assessments on health facility providers and imposed new assessments.	April 1, 1996
Power Authority, MMIA, Workers Compensation	Provided for the deposit into the General Fund of moneys from these entities, respectively: $50 million, $481 million, and $97 million.	April 1, 1996
Fees and Fines	Moved into the General Fund receipts previously deposited into various special revenue accounts.	August 31, 1996
Legislation Enacted in 1997		
Assessments	Provided for the collection of assessments for prior years from certain health facilities.	January 1, 1995
	Initiated a phase-out of the assessments on private health facility providers.	April 1, 1997
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1997
Legislation Enacted in 1998		
Assessments	Accelerated the phase-out of assessments on private health facility providers.	April 1, 1998
Legislation Enacted in 1999		
Assessments	Further accelerated the phase-out of assessments on private health facility providers.	April 1, 1999
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1999
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000

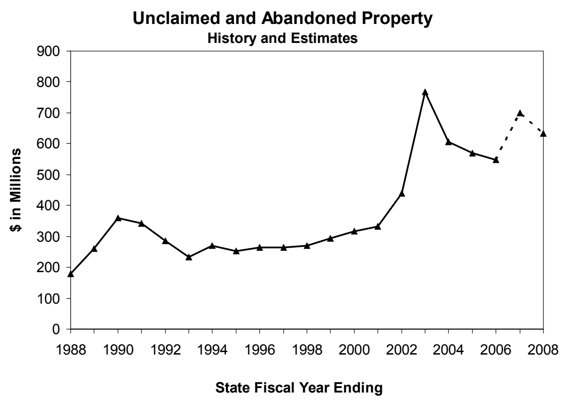
Subject	Description	Effective Date
Legislation Enacted in 2001		
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 in 2004 and $200 in 2005.	April 1, 2003
Uncashed Checks	Reduced dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25 percent.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from $1,000 to $2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a $25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking Surcharges	Increased parking ticket surcharges to provide relief to the General Fund and Big 6 cities from $5 to $15.	November 12, 2003
Legislation Enacted in 2004		
Filing Fees	Increased Filing Fees for Alcoholic Beverage Control License applications.	April 1, 2004
Local Prosecution Program	Imposed various fees related to the Vehicle and Traffic Local Prosecution Program.	August 20, 2004
Driver Responsibility	Created the Driver Responsibility Program with fees of $100 and $250.	August 20, 2004
Federal Bed Contracts	Imposed State Correctional Facility Bed Rental Fee of $30,000 per year to the Federal Government.	April 1, 2004
Waste Tire Fee	Extended the current Waste Tire Fee of $2.50.	October 20, 2004
Stormwater Fees	Increased Stormwater Fees from $50 to $50-$350.	April 1, 2004
Snowmobile Fee	Increased Snowmobile Fee from $5 to $10.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of $300 for the first food inspection violation.	January 1, 2005
Agent License Fee	Increased insurance agent license fee from $20 to $40.	April 1, 2005
Service of Process Fee	Increased service of process fee from $20 to $40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from $100 to $500.	April 1, 2005
Legislation Enacted in 2006		
Abandoned Property	Reduced the dormancy period on uncashed checks from five years to three years and added foreign securities as abandoned property.	April 1, 2006
Banking Fines and Penalties	Reorganized the fee and fine structure of the Banking Department, including eliminating all annual license fees, increasing and simplifying application fees to match the Department's work processes, and raising fine levels to encourage industry compliance.	April 1, 2006

Subject	Description	Effective Date
Point Insurance Reduction	Allowed drivers to reduce points on their license over the internet for a fee of $8 for students and $7,500 for insurance providers.	April 16, 2006
Driver Responsibility Program	Dedicated the remaining funds from the Driver Responsibility Program to the Dedicated Highway and Bridge Trust Fund.	April 1, 2006
ATV Registration Fee	Repealed the $15 ATV train maintenance portion of the fee while maintaining the basic ATV registration fee of $10.	April 1, 2006

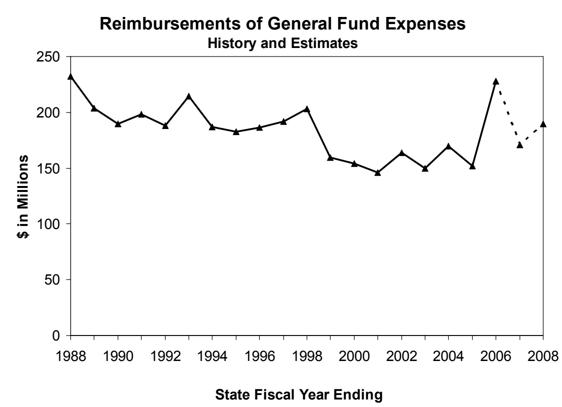
Components of Miscellaneous Receipts



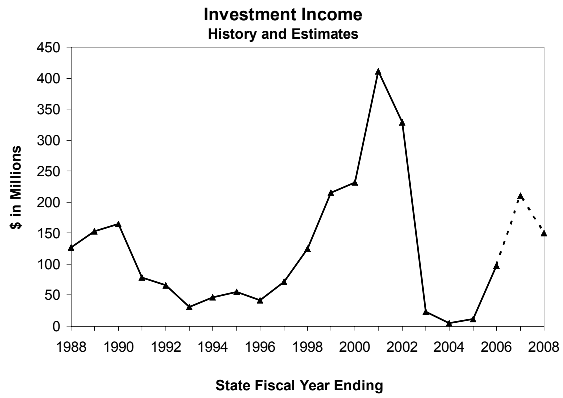
Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2007-08, these revenues are expected to increase as a result of business and licensing fund shifts from special revenue funds. The Revenue Actions section of this volume provides more detail on this category.



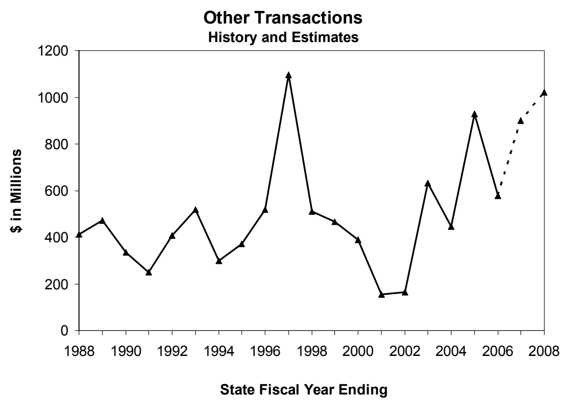
Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and abandoned property revenue is expected to remain relatively constant in the forecast period.



Historically, reimbursements of General Fund expenses and revenue advances have remained relatively constant, and are expected to remain so over the forecast period. In 2006, a portion of General Fund Federal Grants was reclassified to this category of General Fund Miscellaneous Receipts. For more information on this reclassification, please see the Federal Grants section of this volume.



The trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increase in 2000-01 followed by the severe drop in 2002-03 was a result of the impact of the economic growth and subsequent recession on the State's finances - balances declined and interest rates declined sharply. The forecast for investment income is expected to decrease slightly in the outyears as General Fund account balances and interest rates are expected to decrease.



Other transactions, excluding tobacco securitization proceeds (which are not included in the accompanying graph), are an unrelated grouping of transactions and payments, which do not fall under the other miscellaneous receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York including: bond issuance charges on tobacco bond proceeds; a supplemental wireless surcharge; and an increased number of Wall Street settlement payments to the State of New York.

2005-06 RECEIPTS

In State fiscal year 2005-06, miscellaneous receipts totaled $2,028 million. Major revenue sources included: $577 million in fees, licenses, fines, royalties, and rents; $547 million in unclaimed and abandoned property; $228 million in reimbursements; $196 million in medical provider assessments; $94 million in additional bond issuance charges; $68 million from the supplemental wireless surcharge; $50 million from the State of New York Mortgage Agency; and $50 million from the PASNY Power for Jobs program. In addition, the receipts include $98 million in interest earnings on short-term investments and bank accounts, an amount that is net of certain expenses incurred in providing banking services to various State agencies; $20 million ABN Ambro Banking fine; and $100 million from the AIG Settlement.

2006-07 ESTIMATES

Miscellaneous receipts are estimated at $2,665 million for fiscal year 2006-07. Miscellaneous receipts are estimated to increase $636 million from the prior year. The estimate includes: $700 million in unclaimed and abandoned property; $684 million in fees, licenses, fines, royalties, and rents; $210 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); $175 million in medical provider assessments;

$171 million in reimbursements; and $73 million in additional bond issuance charges. Other transactions include $428 million from inter-governmental transactions; $122 million from the State of New York Mortgage Agency; $70 million from the supplemental wireless surcharge; and $32 million from other miscellaneous sources.

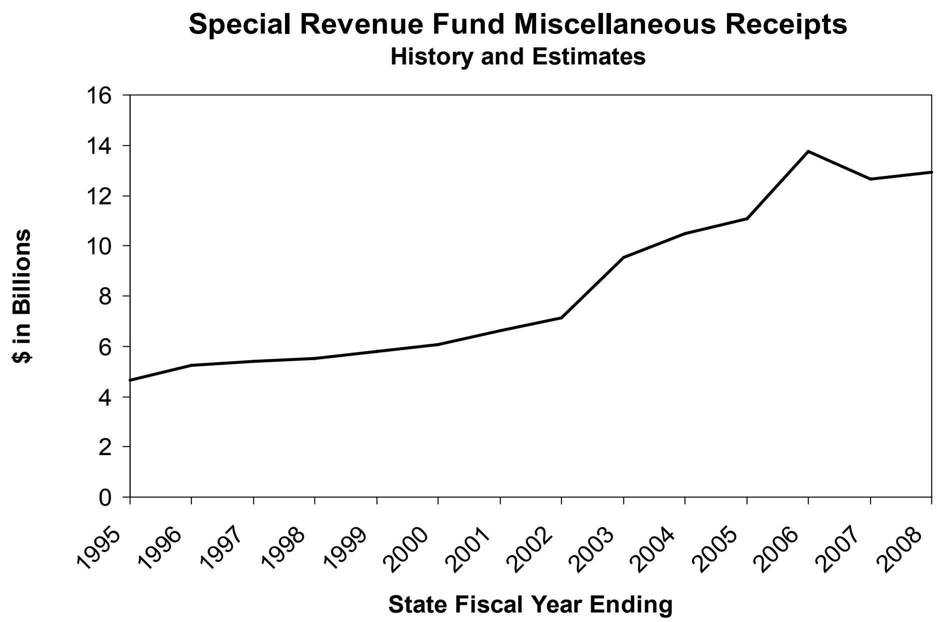
2007-08 PROJECTIONS

Miscellaneous receipts are projected at $2,851 million in fiscal year 2007-08, an increase of $186 million from 2006-07. This projection includes: $845 million in fees, licenses, fines, royalties, and rents; $634 million in unclaimed and abandoned property; $200 million in reimbursements; $171 million in medical provider assessments; and $150 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies). Other transactions include $428 million from inter-governmental transactions; $175 million from the PASNY Power for Jobs Program; $100 million from the State of New York Mortgage Agency; $74 million from the supplemental wireless surcharge; $51 million in additional bond issuance charges; and $23 million from other miscellaneous sources.

MISCELLANEOUS RECEIPTS SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	2005-06 Actual	**2006-07 Estimated**	**Change**	**Percent Change**	**2007-08 Projected**	**Change**	**Percent Change**
State Funds	13,596	12,485	(1,111)	(8.2)	12,790	305	2.4
Federal Funds	171	159	(12)	(7.0)	147	(12)	(7.5)
All Funds	**13,767**	**12,644**	**(1,123)**	**(8.2)**	**12,937**	**293**	**2.3**

Note: Totals may differ due to rounding.



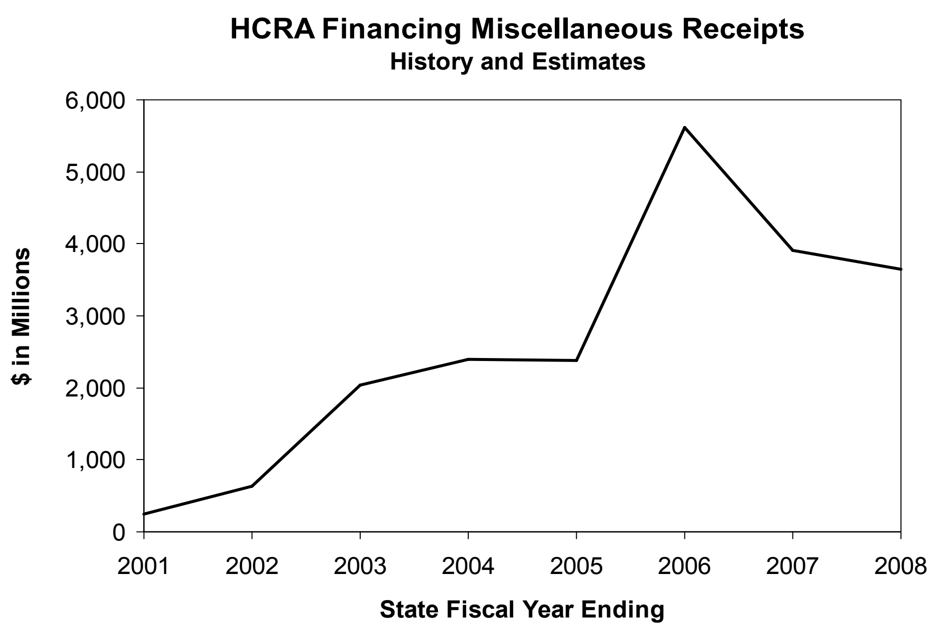
Miscellaneous receipts deposited to special revenue funds represent approximately 23 percent of total special revenue receipts, excluding transfers from other funds. These receipts include SUNY tuition and patient income, lottery receipts for education, health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs. The following table summarizes miscellaneous receipts for 2003-04 through projected 2007-08.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)					
				Estimated	
	2003-04	2004-05	2005-06	2006-07	2007-08
HCRA (1)	2,394	2,374	5,608	3,911	3,651
State University Income	2,236	2,459	2,439	2,631	2,804
Lottery	2,090	2,226	2,364	2,484	2,933
Medicaid	1,187	1,219	447	759	697
Industry Assessments	445	493	497	520	535
All Other	2,165	2,344	2,411	2,339	2,316
Total	10,517	11,115	13,767	12,644	12,936

(1) The increase from 2004-05 to 2005-06 results in part from the inclusion of all HCRA funded programs on-budget in 2005-06

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, a "covered lives" assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State's Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage Program (EPIC), Child Health Plus (CHP), Healthy New York, Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The 2005-06 Enacted Budget created a new HCRA Resources Fund that includes all HCRA financed programs including those that were previously excluded from the State's Financial Plan.



Components of Miscellaneous Receipts

HCRA Financing Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	2006-07	2007-08
Conversion Proceeds	1,000	500
Surcharges	1,713	1,926
Covered Lives Assesment	775	850
Hospital Assesment (1 percent)	248	268
All Other	175	107
Total Miscellaneous Receipts	**3,911**	**3,651**

Miscellaneous receipts are projected to total $3.7 billion a decrease of $260 million from the current year. This decrease is primarily due to a decline in conversion proceeds ($500 million) partially offset by a projected increase in surcharge receipts ($213 million).

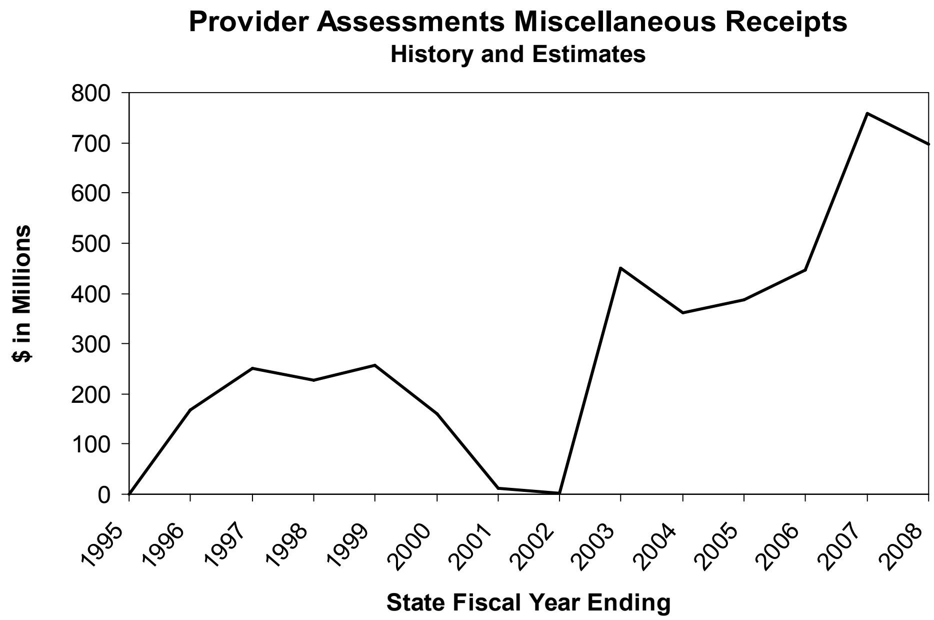
MEDICAID

In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above), the Provider Assessments Fund and the Indigent Care account. These resources are discussed in more detail below.

Medicaid Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	2006-07	2007-08
Provider Assessments	759	697
Indigent Care (1)	0	0
Total Miscellaneous Receipts	**759**	**697**

Provider Assessments

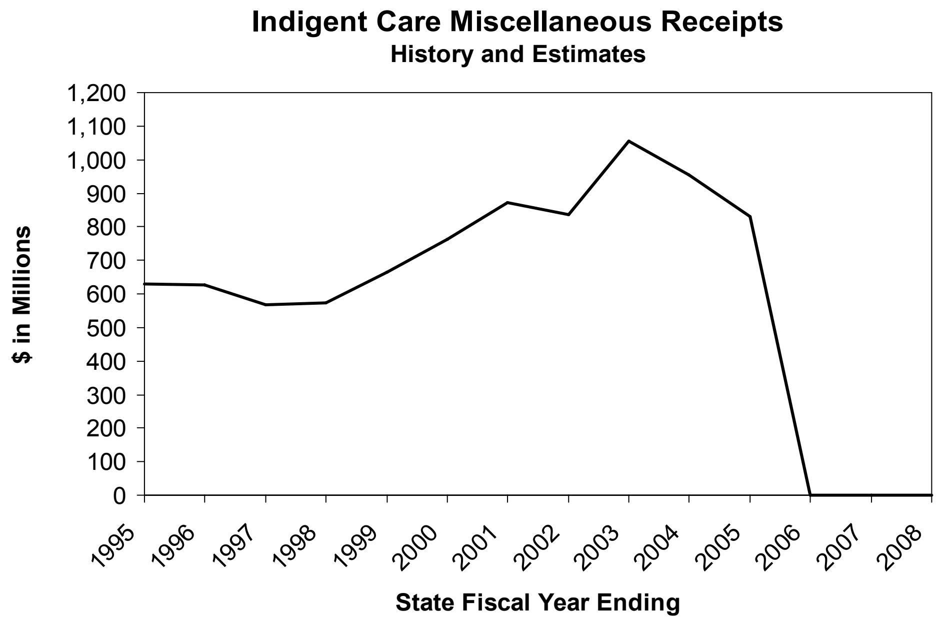
Prior nursing home assessments were eliminated as of April 1, 2000. A new Provider Assessments Fund was established with the 2002-03 Enacted Budget and is currently supported by a partially-reimbursable 6 percent assessment on nursing home revenues an 0.35 percent assessment on hospital revenue.



Assessment receipts are projected to total $697 million, a decrease of $62 million attributed to certain nursing home delinquent payer assessment collections in 2006-07 that are not expected to recur in 2007-08.

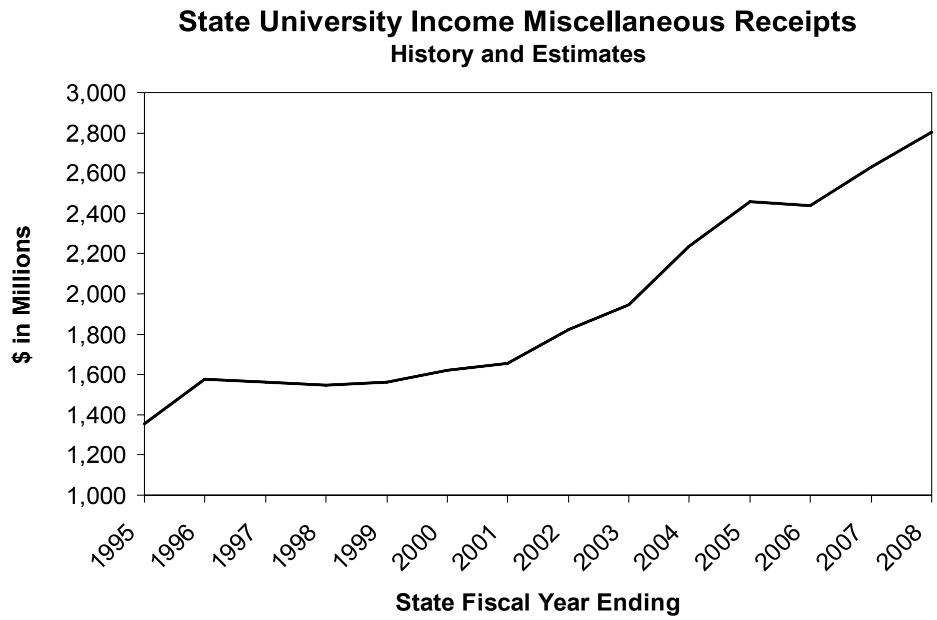
Indigent Care

The Indigent Care Fund allows the State to claim Federal reimbursement for payments to hospitals that provide care for the medically indigent. The State makes payments in the first instance from a bad debt and charity care pool funded with non-Federal Medicaid dollars, and money from various payers including insurance companies and hospitals. This fund has been included in the new HCRA Resources Fund beginning in 2005-06 and thus excluded from this Medicaid section.



STATE UNIVERSITY INCOME

The majority of special revenue receipts that support SUNY's operations are provided by tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse, as well as the Long Island Veterans' Home, receive patient revenue from third-party payers including Medicare, Medicaid, insurance companies, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from service users, including students, faculty, staff, and the public. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.



Components of Miscellaneous Receipts

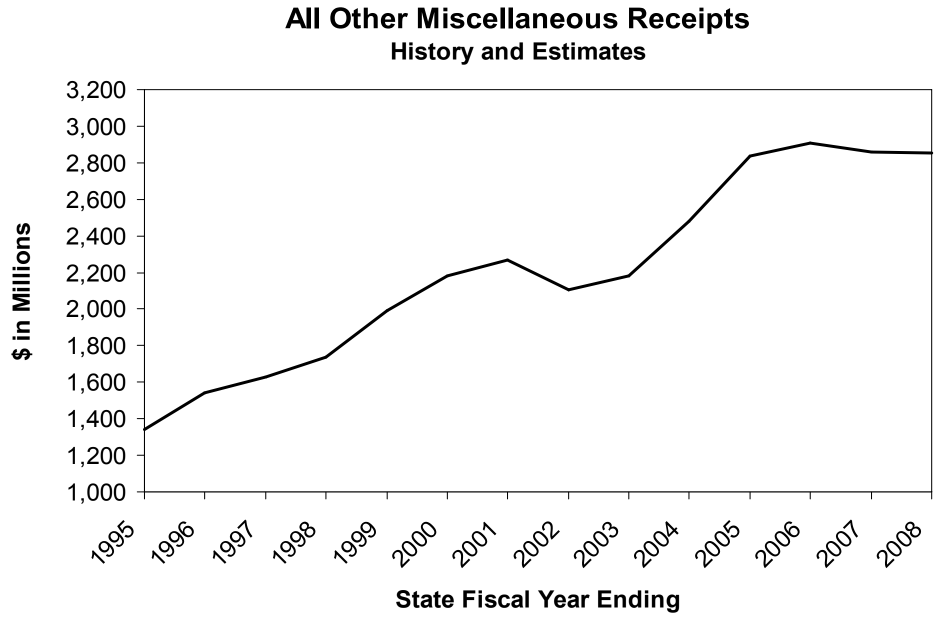
State University Income **Components of Miscellaneous Receipts** (millions of dollars)		
	Estimated	
	2006-07	**2007-08**
Tuition	1,066	1,161
Patient Revenues	1,025	1,083
User Fees	472	513
All Other	67	47
Total Miscellaneous Receipts	**2,630**	**2,804**

Miscellaneous receipts are projected to total $2.8 billion and increase of $173 million over the current year. This increase is driven primarily by a projected growth in tuition ($95 million), patient revenues ($58 million) and user fees ($41 million).

LOTTERY

Receipts from the sale of lottery tickets and proceeds from Video Lottery Terminals (VLT) at racetracks are used to support public education, as well as administrative costs associated with Lottery operations. The Lottery is discussed in detail in a separate section.

INDUSTRY ASSESSMENTS/ALL OTHER



Components of All Other Miscellaneous Receipts

All Other
Components of All Other Miscellaneous Receipts
(millions of dollars)

	Estimated 2006-07	2007-08
Health	435	468
Environmental Conservation	207	216
Tribal State Compact	146	93
State Police	139	159
HESC	104	110
Education	134	136
CUNY	120	120
Motor Vehicles	121	113
All Other	933	901
Total Miscellaneous Receipts	**2,339**	**2,316**

The remaining revenues in this category include fees, licenses, and assessments collected by State agencies, primarily to support all or specific components of their operations. Receipts from assessments primarily reflect reimbursements from regulated industries, which fund the administrative costs of State agencies charged with their oversight. State agencies funded entirely from assessment include the Banking Department, the Insurance Department, the Public Service Commission, and the Workers' Compensation Board.

In addition to agency industry assessments, various fines and fees are collected to support agency operations and programs. The major sources of miscellaneous receipts by agency are detailed below.

Health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

Tribal State Compact receipts consist of all revenues resulting from tribal state compacts executed pursuant to Executive Law.

State Police miscellaneous revenue sources include seized assets, a portion of the State's monthly surcharge on cellular telephone bills, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

HESC receipts include administrative fees paid by the Federal government and collections on defaulted loans

Education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

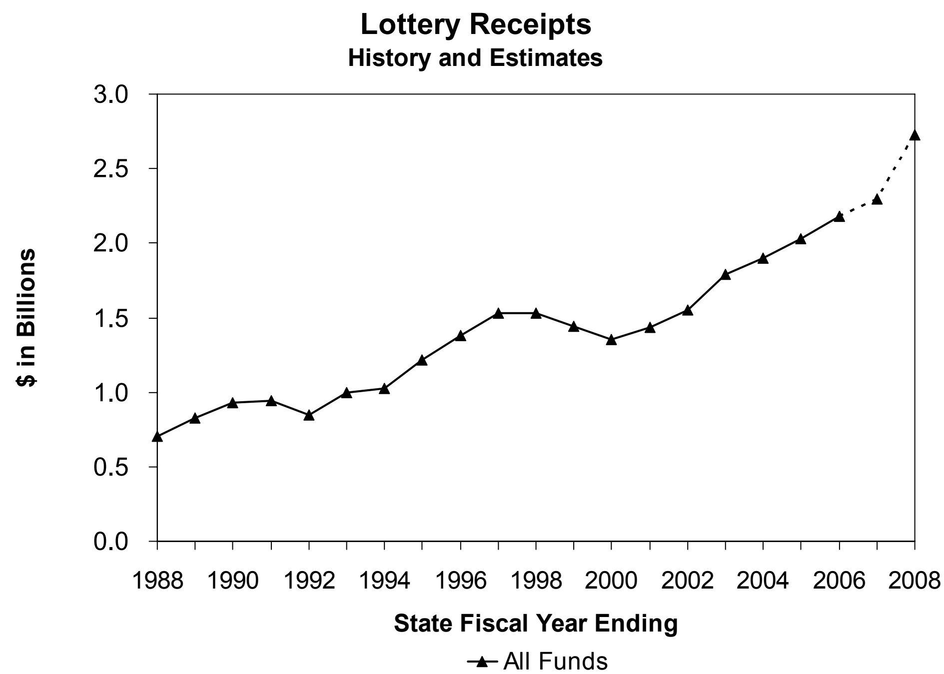
CUNY miscellaneous receipts include income derived from excess tuition revenue and collections from self-supporting activities such as application fees, continuing education, and dormitory fees.

Motor Vehicles fees include, assessments against insurers, surcharges on traffic violations and suspended licenses and vehicle registration fees.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	2,179.4	2,296.0	116.6	5.4	2,725.0	429.0	18.7
All Funds	2,179.4	2,296.0	116.6	5.4	2,725.0	429.0	18.7

Note: Totals may differ due to rounding.



LOTTERY RECEIPTS BY COMPONENT (millions of dollars)												
	Instant Games	Numbers	Win 4	Lotto	Pick 10	Take 5	Quick Draw	Mega Millions	Other*	VLTs	Admin. Surplus**	Total Receipts
1997-98	298.3	243.9	151.7	391.7	17.4	133.9	125.8		4.2		166.8	1,533.9
1998-99	283.2	249.2	157.0	338.3	17.0	128.9	123.5		0.0		145.4	1,442.4
1999-00	272.7	246.7	159.6	293.8	15.1	114.8	82.2		45.7		119.1	1,349.8
2000-01	282.7	247.4	164.5	250.2	14.5	135.0	126.7		54.5		159.8	1,435.5
2001-02	377.1	256.8	182.4	254.8	13.2	152.2	121.9		0.0		193.2	1,551.5
2002-03	465.7	263.4	202.0	175.7	11.9	133.5	118.6	129.0	7.2		281.9	1,789.0
2003-04	529.0	268.6	210.3	163.4	12.1	128.9	127.1	166.6	6.1	12.6	272.3	1,897.1
2004-05	550.0	275.9	217.7	137.5	11.8	121.3	118.0	156.3	4.9	141.2	296.0	2,030.7
2005-06	594.9	286.6	229.2	113.7	11.4	116.9	114.7	194.4	14.0	161.7	341.8	2,179.4
Estimated												
2006-07	663.0	295.0	243.0	94.0	11.0	113.0	110.0	145.0	17.5	275.0	329.5	2,296.0
2007-08												
Current Law	665.0	331.0	280.0	84.0	11.0	110.0	18.0	158.0	17.5	586.0	355.5	2,616.0
Proposed Law	665.0	331.0	280.0	84.0	11.0	110.0	108.0	158.0	17.5	586.0	374.5	2,725.0

** Other includes: Instant Win, Keno (1986-07 through 1988-08), Lucky Day (1996-97 and 1997-98), Local Lotto (1999-2000), Millennium Millions (1999-2000 and 2000-01), King Kong (2005-06), and the Raffle to Riches games (2006-07 and 2007-08).*

*** Any unused portion of Lottery's 15 percent administrative allowance is used for aid to education.*

PROPOSED LEGISLATION

The Quick Draw game expires on May 31, 2007. This Budget includes legislation to extend the authorization to operate Quick Draw until May 31, 2008.

DESCRIPTION

In 1966, New York State voters approved a referendum authorizing a State lottery, and ticket sales commenced under the auspices of the Lottery Commission. Under the original lottery legislation, a lotto-type game was offered with 12 drawings a year, 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent representing an upper limit on administrative expenses. Since its inception, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer. In 1973, the New York State Racing and Wagering Board took over operation of the Lottery from the Lottery Commission. The New York State Division of the Lottery was established in 1976, and assumed the operation of the State's Lottery.

The Lottery Division, as an independent agency within the Department of Taxation and Finance, manages the operation and sales of the State's Lottery games. The Lottery Division is authorized to operate five types of games:

- Instant games, sold as scratch-off tickets in which most prizes are won immediately (approximately 60 games are currently being offered for sale with prices ranging from $1 to $20);
- Lotto games, which are pari-mutuel, pick-your-own-numbers games offering large top prizes with drawings conducted 11 times weekly: seven 5-of-39 draws (Take 5), two 6-of-59 draws (Lotto 59) and two multi-jurisdictional drawings (Mega Millions). For the Lotto 59 game and the Mega Millions game, the value of any top prize not won is added to the top prize in the subsequent drawing;
- Daily numbers games, which are fixed-odds games with daily drawings where players select either a three-digit number (Daily Numbers), or a four-digit number (Win 4), and Instant Win, an add-on game to Daily Numbers and Win 4;
- Keno-like games, which are pari-mutuel pick-your-own 10-of-80 numbers games with drawings conducted either daily (Pick 10) or every four minutes (Quick Draw) during certain intervals. The Lottery Division pays top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw; and
- Video lottery games, which are lottery games played on video gaming devices. Video Lottery Terminals (VLTs) are currently authorized only at selected thoroughbred and harness tracks.

The table below shows the distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

Distribution of Lottery Sales (Percent)	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Lotto - Millennium Millions	40	45	15
Instant Win	40	45	15
Mega Millions	50	35	15
Take 5	50	35	15
Quick Draw	60	25	15
Numbers	50	35	15
Win 4	50	35	15
Pick 10	50	35	15
Instant	65	20	15
Three Instant Games at 75%	75	10	15

Frequency of Lottery Drawings

Game	Date of Inception	Frequency of Drawings
Lotto	1967	Saturday and Wednesday at 11:21 PM
Numbers	1980	Twice Daily
Win 4	1981	Twice Daily
Pick 10	1988	Once Daily
Take 5	1992	Once Daily
Quick Draw	1995	Every four minutes daily from 10 a.m. to 3 p.m. and 4 p.m. to midnight
Mega Millions	2002	Tuesday and Friday at 11:00 PM

The following table shows the distributions of VLT receipts (after prizes) among revenue for education, administration, operator commission, and funds available for promotions.

Distribution of VLT Receipts After Prizes*
(Percent)

Racetracks in Westchester and Queens Counties

Net Machine Income	Revenues for Education	Lottery Administration Fee	Operator Commission	Promotions
Less than $50 million	54	10	32	4
Over $50 million to $100 million	57	10	29	4
Over $100 million to $150 million	57	10	29	4
Over $150 million	60	10	26	4

Other Racetracks

Net Machine Income	Revenues for Education	Lottery Administration Fee	Operator Commission	Promotions
Less than $50 million	50	10	32	8
Over $50 million to $100 million	53	10	29	8
Over $100 million to $150 million	56	10	29	5
Over $150 million	59	10	26	5

*Not less than 90 percent of sales must be used for prizes.
Net Machine Income is gross receipts minus prize payments.

Administration

The Lottery Division develops new lottery games, markets and advertises, distributes games, provides terminals and computer programming, regulatory oversight and otherwise performs all functions necessary to operate an effective State lottery. The Comptroller, pursuant to an appropriation, distributes all net receipts from the Lottery directly to school districts. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

Sales agents are notified electronically by the Lottery Division's operations vendor by Monday of each week of the amount due the State from sales during the previous week. The agent has until Tuesday to deposit sufficient funds in specified joint bank accounts at which time the operations vendor sweeps the receipts and transfers them to the Lottery Division by Wednesday morning. For VLTs, deposits are required within two days of sales, and the Lottery Division sweeps the accounts daily.

Significant Legislation

The significant lottery legislation enacted since 1967 is summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1967		
Authorization	Authorized a State Lottery to be operated by the Lottery Commission. The lottery may not have more than 12 draws in a fiscal year, and may not have a prize payout of more than 30 percent, with a minimum of 55 percent of revenue for education.	April 18, 1967
Legislation Enacted in 1968		
Number of Drawings	Increased the number of allowable drawings to not more than one regular drawing per week, and authorized special or bonus drawings.	March 12, 1968
Legislation Enacted in 1970		
Number of Drawings	Eliminated the restriction on the number of drawings allowed.	April 22, 1970
Prize Payout	Increased the prize payout to not more than 40 percent and lowered the minimum revenue for education to 45 percent.	April 22, 1970
Legislation Enacted in 1973		
Operation	Transferred the operation of the State Lottery to the New York State Racing and Wagering Board.	July 1, 1973
Legislation Enacted in 1976		
Operation	Established the New York State Division of the Lottery, which replaced the Racing and Wagering Board as the operator of the State Lottery.	March 31, 1976
Legislation Enacted in 1980		
Prize Payout	Authorized prize payouts of up to 50 percent for daily numbers games and a minimum of 35 percent of revenue to education.	April 1, 1980
Legislation Enacted in 1988		
Prize Payout	Authorized a 50 percent prize payout for Instant games, "Daily Numbers Games" and "Win 4" with a minimum of 35 percent of revenue to education. Authorizes a 40 percent prize payout for "Win 10" and other State-operated lottery games.	July 19, 1998
Legislation Enacted in 1991		
Prize Payout	Increased the prize payout for instant games from 50 percent to 55 percent and lowered the minimum amount of revenue for education to 30 percent. Increased the prize payout for "Pick 10" from 40 percent to 50 percent and lowered the minimum amount of revenue for education to 35 percent.	June 12, 1991
Legislation Enacted in 1994		
Limit on Draws per Day	The drawings for Pick 10, Take 5, and Lotto games are to be offered no more than once daily.	April 1, 1994
Unclaimed Prize Money	The use of unclaimed prize money for the promotional supplementation of games other than Lotto by the Division is limited to 16 weeks per year.	April 1, 1994
Annual Plan	The Division is required to submit an annual report to the Legislature, the Governor, and the Division of the Budget each year.	April 1, 1994

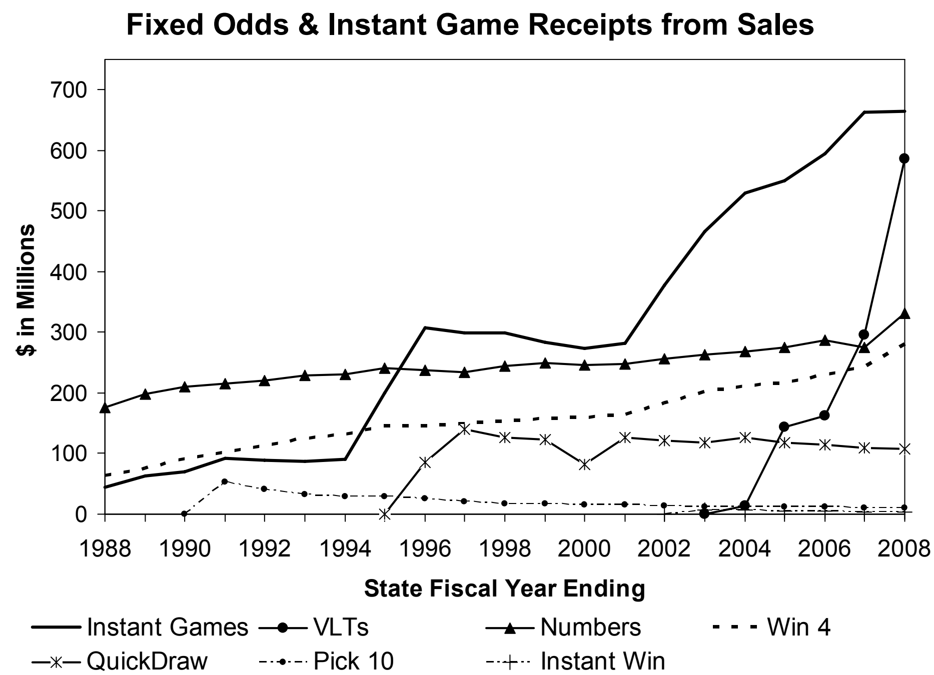
Subject	Description	Effective Date
Legislation Enacted in 1995		
Quick Draw	Authorized Quick Draw.	April 1, 1995
	Authorized a 60 percent prize payout.	
	Drawings for the game can be held no more than 13 hours each day, of which only eight hours can be consecutive.	
	If there is no license for the sale of alcohol, then the premises have to be a minimum of 2,500 square feet.	
	If there is a license to sell alcohol, then at least 25 percent of the gross sales must be from sales of food.	
Legislation Enacted in 1999		
Instant Games	Authorized a 65 percent prize payout.	April 1, 1999
	Reduced the percent dedicated to education from 30 percent to 20 percent.	
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi-jurisdictional lotto games with a 50 percent prize payout (Mega Millions).	October 29, 2001
Video Lottery Terminals	Allowed the Lottery Division to license the operation of video lottery machines at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
Instant Games	Authorized up to three 75 percent prize payout Instant ticket games to be offered during the fiscal year.	January 28, 2002
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
Video Lottery Terminals	Provided that of the total amount wagered on video lottery terminals, not less than 90 percent is paid out for prizes. Of the balance, the Lottery Division retains 10 percent for administration, 29 percent is paid to the racetracks as a commission, and 61 percent is dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three is 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders' funds receive 4.3 percent of the commission paid to racetracks in the first through fifth years and 5.2 percent in the following years. The racetracks are allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the program.	May 2, 2003
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Terminals	Provides a graduated vendor's fee that allows participating tracks to receive 32 percent of the first $50 million of revenue after prizes, 29 percent of the next $100 million, and 26 percent of net revenue over $150 million. In addition, a marketing allowance of 8 percent of the first $100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program is extended until December 31, 2017.	April 12, 2005
Legislation Enacted in 2006		
Quick Draw	Extended the operation of Quick Draw until May 31, 2007.	April 28, 2006

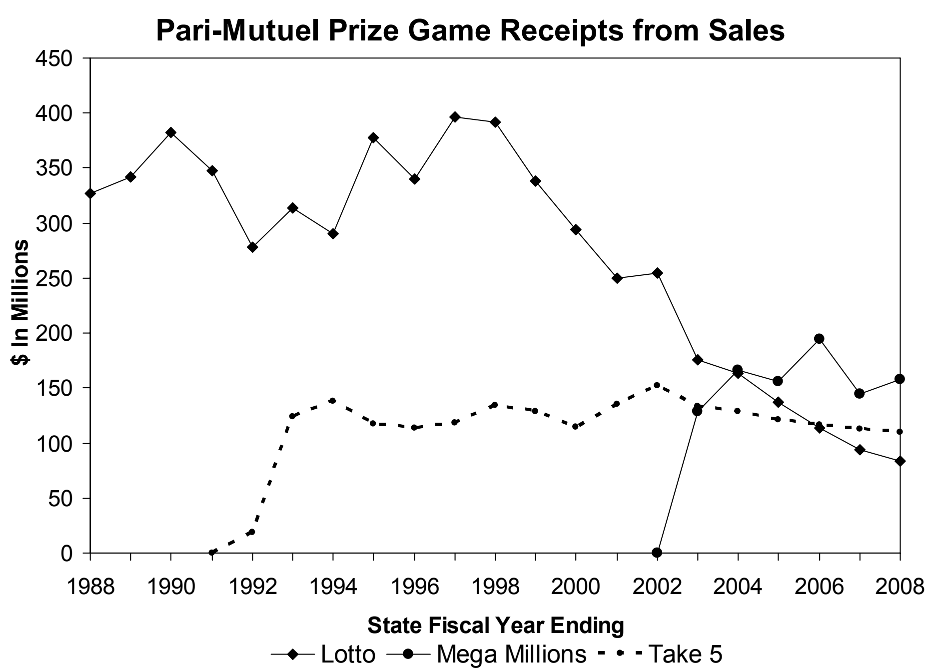
LOTTERY DEMAND

Factors that affect the demand for Lottery games include: the size of jackpots, the price of the lottery tickets, the amount spent on advertising and marketing, the prize payout percentage, the development of new games that generate increased sales, the potential customers' attitude towards Lottery games and competition from other gambling venues.

For a more detailed discussion of the methods and models used to develop estimates and projections, please see the *Economic and Receipt Estimates Methodology* at www.budget.state.ny.us.

The following graphs show the receipts history of the various games since 1988.





RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2006-07 Estimates

Receipts for education from sales of Lottery games for 2006-07 are estimated to be $2.30 billion, an increase of $117 million, or 5.4 percent above 2005-06. Unspent administrative allowances and miscellaneous income account for $329.5 million of receipts. Net receipts for education also include $275 million from the operation of video lottery terminals. A game-by-game profile follows.

Receipts from Instant Games sales are expected to increase to $663 million in 2006-07, an increase of $68.1 million, or 11.4 percent from last year. Strong growth in instant games has continued in 2006-07, although growth rates have continued to decline from their peak in 2002-03 with the introduction of the 75 percent pay-out games. The majority of the growth in Instant Game receipts has been from games with 75 percent pay-out.

Lotto receipts from sales are expected to decline from $113.7 million in 2005-06 to $94 million, a drop of 17.3 percent. The decline in Lotto is attributable to competition from the larger jackpots offered in the Mega Millions game and the associated decline in customer interest in small jackpot sizes. In addition, modifications to the roll-up schedule have resulted in lower jackpot offerings.

Mega Millions revenue from sales in 2006-07 is estimated to be $145 million, a decrease of $49.4 million from 2005-06. This decline is attributable to the drop in the number of high jackpot roll-ups achieved in 2006-07. To date, there has only been one roll-up in excess of $200 million and three in excess of $100 million. In 2005-06, there were six jackpot roll-ups in excess of $100 million and two which exceeded $200 million.

STATES PARTICIPATING IN MEGA MILLIONS	
California	New Jersey
Georgia	New York
Illinois	Ohio
Maryland	Texas
Massachusetts	Virginia
Michigan	Washington

Receipts from Take 5 sales are estimated to decline by 3.4 percent in 2006-07 to $113 million. Take 5 sales have been negatively impacted by competition from other games and a maturing game life cycle.

Numbers and Win 4 continue to benefit from increased customer interest resulting from moving to two daily drawings. Receipts from sales of Numbers are estimated to increase from $286.6 million in 2005-06 to $295 million in 2006-07, an increase of $8.4 million or 2.9 percent. Receipts from sales of Win 4 are estimated to increase by 6.0 percent from 2005-06, or $13.8 million, to a total of $243 million.

Receipts from Instant Win sales are estimated at $4 million in 2006-07. Instant Win game sales reflect the modest demand for a game which offers Numbers and Win 4 players the opportunity to win prizes up to $500 for an additional $1 wager.

Quick Draw is estimated to generate $110 million in receipts from sales, a decline of $4.7 million. Quick Draw receipts continue to decline as customer interest in the game continues to fall and as Quick Draw faces competition from other games. In addition, the impact of restrictions on smoking, and statutory limitations on the placement of terminals, hours of operation, and size of facilities continue to limit the potential revenue from Quick Draw.

The Lottery Division is offering a promotional raffle game in 2006-07. The Raffle to Riches game consists of 1.5 million tickets for $20 each and will offer twelve top prizes of $1 million. The raffle is expected to generate $13.5 million for education. It is currently anticipated that this game will be repeated in 2007-08.

The VLT program is operating at the following eight track locations: Saratoga, Finger Lakes, Monticello, Buffalo, Batavia, Tioga, Vernon, and Yonkers. Receipts from VLT sales are estimated at $275 million for 2006-07. Receipts from VLTs benefited from the full year impact of the promotional support which began in 2005-06, and the opening of three new facilities. Operating results to date at Yonkers Raceway VLT facility have been lower than expected. Factors which have contributed to this weaker than anticipated opening include: continued ongoing construction at the facility, lack of advertising and promotions, delays in the start date for full operations of the facility and delays in the opening of additional amenities at the facility. This leads to a significant downside risk for lower than anticipated results at Yonkers. Assuming that the present trends continue at Yonkers, the expected receipts for the current year have been reduced to $68 million for 2006-07.

2007-08 Projections

Under proposed law, receipts for education from sales of Lottery games will increase from the prior fiscal year by $429 million, or 18.7 percent, to $2.73 billion. Unspent administrative allowances and miscellaneous income are estimated at $375 million. Receipts from VLTs are projected at $586 million.

Under current law, receipts for education from sales of Lottery games for 2007-08 are projected to be $2.62 billion, an increase of $320 million, or 13.9 percent above 2006-07.

Instant games receipts from sales are projected to increase to $665 million. The receipts from the higher priced (75 percent pay-out) games are expected to continue to drive the growth in instant games sales.

Lotto game receipts from sales are projected to decline by $10 million. The continued drop in Lotto sales reflects competition from other gambling options, continued competition from Mega Millions, and reduced customer interest in the low jackpots offered by Lotto.

Net receipts from Mega Millions sales are projected to increase by 9.0 percent, to $158 million. Collection experience shows a direct correlation between the size of the jackpots and the amount of revenue received. The estimating methodology indicates that it is likely that there will be more significant roll-ups in 2007-08 than was achieved in 2006-07. The estimate for 2007-08 is in line with the average level of sales of Mega Millions.

Receipts from Take 5 sales are projected to decrease by $3 million. This decline is consistent with the historical decline in Take 5 sales.

Daily Numbers and Win 4 receipts from sales are projected to increase by $36.0 million and $37 million, respectively. Daily Numbers and Win 4 are expected to benefit from the introduction of a new SUM add on game, which will allow players to match the sum of their chosen numbers with the sum of the drawn numbers. Receipts from Numbers sales are projected at $331 million, an increase of 12.2 percent. Win 4 sales are expected to continue to grow at a faster pace than Numbers sales, with receipts from Win 4 sales increasing by 15.2 percent to $280 million.

Instant Win receipts from sales are projected to remain constant at last year's level of $4 million.

Receipts from sales of the Quick Draw game would decline by $92 million or 83.6 percent if the game was allowed to sunset on May 31, 2007. If the authorization to operate Quick Draw is extended, as proposed in this Budget, receipts from sales are projected at $108 million, a 1.0 percent decline from last year.

The VLT program is projected to generate $586 million for education in 2007-08, an increase of $311 million. This increase largely represents the full year operation of facilities that opened during the 2006-07 fiscal year. The current performance of VLTs at Yonkers Raceway indicates some amount of downside risk to the estimate for 2007-08 as well as overall VLT program estimates in the out-year forecast.

MISCELLANEOUS RECEIPTS
CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS
(millions of dollars)

	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
State Funds	2,731	4,277	1,546	56.6	6,289	2,012	47.0
Federal Funds	1,768	1,760	(8)	(0.4)	1,996	236	13.4
All Funds	4,499	6,037	1,538	34.2	8,285	2,248	37.2

Note: Totals may differ due to rounding.

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS
(millions of dollars)

	2003-04	2004-05	2005-06	2006-07	2007-08
Authority Bond Proceeds					
Transportation	1,571	1,072	721	1,058	1,086
Public Protection	173	183	179	257	278
Health and Social Welfare	31	30	82	10	133
Education	556	592	656	1,735	2,577
Mental Hygiene	180	188	256	263	309
Econ. Develop./Gov. Oversight	185	369	465	478	1,400
General Government	34	56	38	69	53
Other	106	100	173	237	177
State Park Fees	21	20	30	32	26
Environmental Revenues	33	24	33	54	76
All Other	139	149	98	82	170
Total	3,029	2,783	2,731	4,277	6,289
Accounting Adjustment	(861)	(1,024)	(1,017)	(1,712)	(2,704)
Financial Plan Total	2,168	1,759	1,714	2,565	3,585

Miscellaneous receipts in the Capital Projects Fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as "Off-Budget Spending", is not reflected in the Comptroller's accounting system, but is included in the Five-Year Capital Program and Financial Plan estimates and projections. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

Regarding capital projects spending activity in the Capital Program and Financing Plan, State Funds receipts are utilized to finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) are used to finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) are utilized to finance Federal Pay-As-You-Go spending.

REIMBURSEMENT FROM AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. Such contractual arrangements for financing capital project spending exist with the Empire State Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the" Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements. Reimbursements from authority bond proceeds will account for approximately 96 percent of all miscellaneous receipts flowing into Capital Projects Funds in 2006-07 and in 2007-08.

STATE PARKS, ENVIRONMENTAL, AND OTHER REVENUES

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at $32.0 million in 2006-07 and $25.5 million in 2007-08, will be used to finance improvements at various facilities across the State's park system.

Other miscellaneous environmental revenues include receipts primarily from the sale of surplus State lands, the leases of coastal State property, and the sale of environmental license plates. These are deposited into the Environmental Protection Fund. Other environmental revenues from settlements with individuals and other parties who are liable for damage caused to State environmental properties are deposited in the Natural Resource Damages Fund. These environmental revenues are projected to increase from $54 million in 2006-07 to $76 million in 2007-08. The Executive Budget contains a proposal to expand the Bottle Bill to include all non-carbonated beverages and redirect all unclaimed deposits to the State to support spending in the Environmental Protection Fund (EPF). These modifications would begin as of January 1, 2008 and will provide approximately $25 million in additional receipts to the EPF in SFY 2007-08, which will be used for critical environmental projects such as land stewardship, farmland protection and enhanced recycling and pollution prevention efforts. These unclaimed deposits are expected to total $100 million annually.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs at State facilities. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

MISCELLANEOUS RECEIPTS
DEBT SERVICE FUNDS

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)										
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2006-07 Projected	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Funds	768.0	656.0	(82.0)	(10.7)	665.0	(21.0)	(3.1)	671.0	6.0	0.9
All Funds	768.0	656.0	(82.0)	(10.7)	665.0	(21.0)	(3.1)	671.0	6.0	0.9

Note: Totals may differ due to rounding.

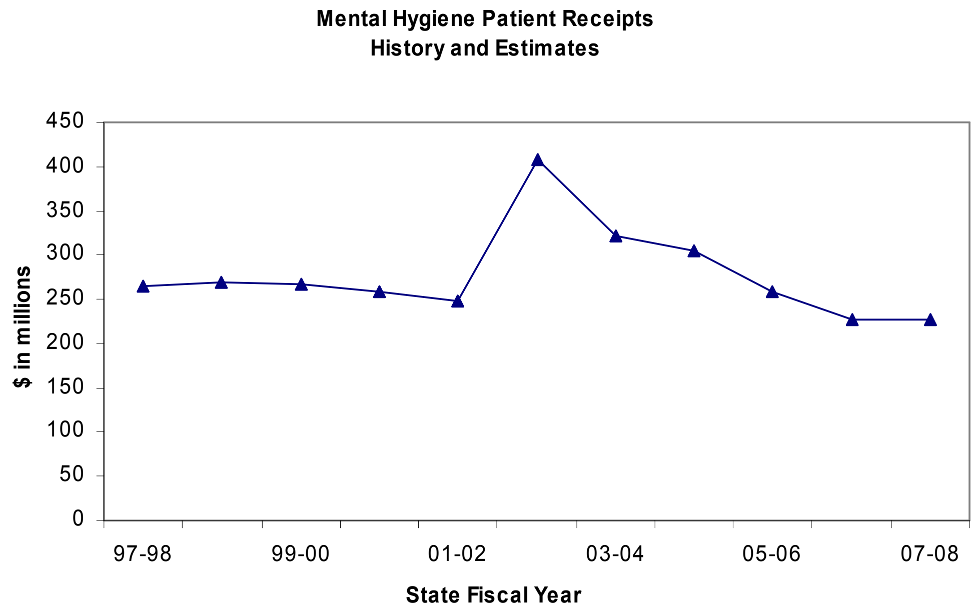
	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
General Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Funds	639	630	611	860	614	807	810	768	686	665	671
All Funds	639	630	611	860	614	807	810	768	686	665	671

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS (millions of dollars)					
	2003-04	2004-05	2005-06	2007-08	2008-09
Mental Hygiene Patient Receipts	322.0	305.0	228.0	228.0	228.0
SUNY Dormitory Fees	283.0	319.0	308.0	317.0	326.0
Health Patient Receipts	113.0	121.0	98.0	98.0	98.0
All Other	92.0	23.0	22.0	22.0	19.0
Total	**810.0**	**768.0**	**656.0**	**665.0**	671.0

Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income, and other revenues. These revenues are first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 15 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities, Department of Health facilities and the State University of New York (SUNY) dormitories. In addition, the revenues are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts, together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds to offset the cost of State operations.

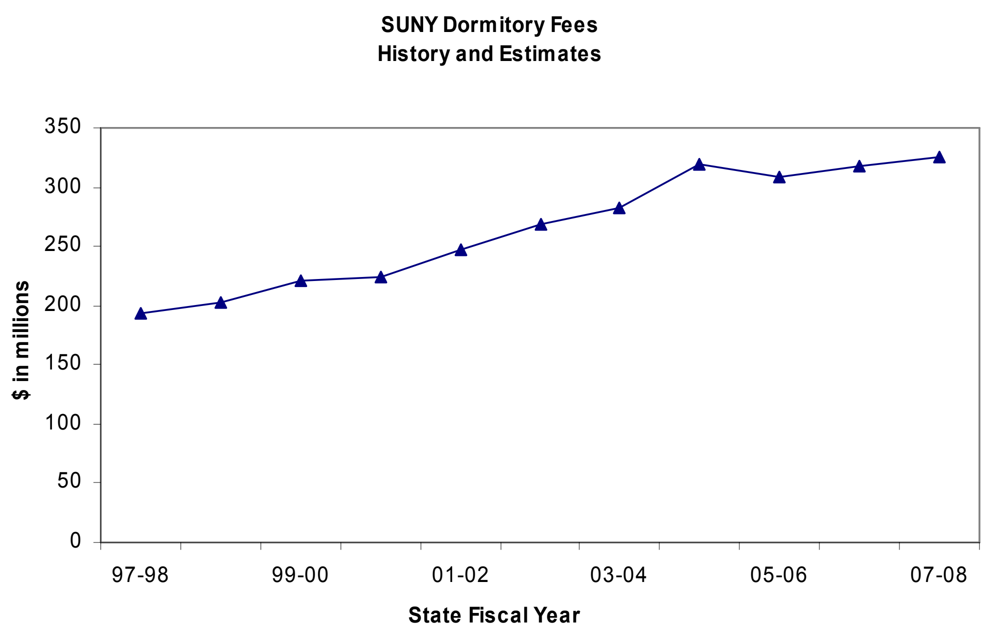
MENTAL HYGIENE PATIENT RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.



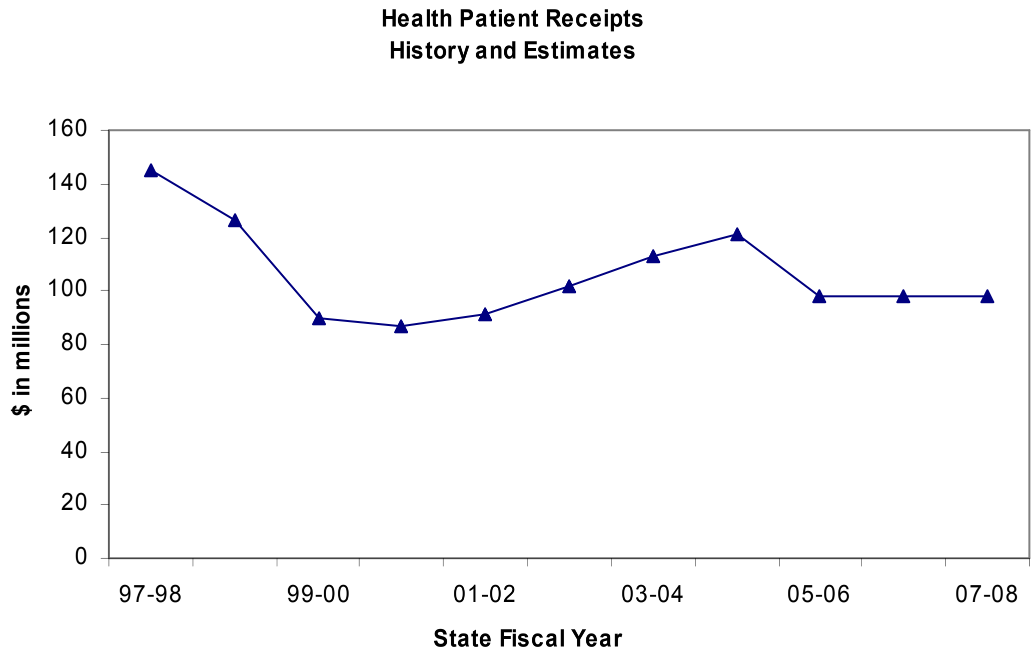
DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund are pledged for debt service on bonds issued by DASNY in the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase payment agreement.



HEALTH PATIENT RECEIPTS

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.



ALL OTHER

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation and payments from local housing agencies to finance the debt service costs on general obligation bonds. All other receipts include $53 million in 2003-04 that were deposited to the Debt Reduction Reserve Fund and used to retire high cost debt.

2008-09 PROJECTIONS

Debt Service miscellaneous receipts are projected at $680 million in fiscal year 2008-09, an increase of $9 million from 2007-08. The projection includes: $9 million increase for SUNY Dormitory Income Fund and a reduction of $0.4 million in the Housing Development Fund. All other miscellaneous receipts remain the same.

FEDERAL GRANTS

To qualify to receive Federal grants, the State must comply with guidelines established by the Federal government. Each Federal grant must be used pursuant to Federal laws and regulations. Additionally, the State is required to follow specific cash management practices regarding the timing of cash draws from the Federal government pursuant to regulations for each grant award. In most cases, the State finances spending in the first instance, then receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at $36.2 billion in 2006-07 and $37.3 billion in 2007-08. These revenues represent approximately 32 percent of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the General Fund, Special Revenue and the Capital Projects fund types.

GENERAL FUND

Prior to 1988-89, Federal grants revenue averaged around $55 million per year, and since that time have declined to approximately $11 million per year.

In the current year, Federal grants have been reclassified to the Refunds and Reimbursements category of Miscellaneous Receipts while Medicare Part D payments are now classified as Federal grants. This will result in annual Federal grants collections of approximately $59 million. The current year includes a one time Federal reimbursement of $120 million for emergency costs related to Federal implementation delays of the new Medicare Part D program, which the state incurred during SFY 2005-06.

SPECIAL REVENUE FUNDS

Federal grants account for approximately three-quarters of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds, and helps finance health care, medical supplies, and professional services for eligible persons. The State receives moneys from the Federal government to make payments to providers for both State-operated and non-State-operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities. These facilities receive Medicaid funds for the delivery of eligible services to patients. Receipts for State-operated facilities represent 12 percent of total Federal Medicaid reimbursements, while receipts for non-State-operated facilities represent the remaining 88 percent.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Welfare, Foster Care, Food and Nutrition Services, and Supplementary Educational Services.

CAPITAL PROJECTS FUNDS

Federal grants in the Capital Projects fund type finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of State armories, eligible housing programs, and other environmental purposes.

FEDERAL GRANTS
(millions of dollars)

	General Fund	Special Revenue Funds			Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other				
	Actual							
1998-99	0	13,552	1,488	6,382	21,422	1,219	0	22,641
1999-2000	0	14,432	1,017	6,735	22,184	1,381	0	23,565
2000-01	0	15,203	1,450	7,620	24,273	1,509	0	25,782
2001-02	0	16,324	1,975	8,399	26,698	1,423	0	28,121
2002-03	0	19,021	2,307	10,356	31,684	1,567	0	33,251
2003-04	645	20,943	1,788	12,390	35,121	1,548	0	37,314
2004-05	0	22,083	1,998	10,411	34,492	1,721	0	36,213
2005-06	0	21,979	2,500	8,884	33,363	1,766	0	35,129
	Estimated							
2006-07	180	21,797	2,576	9,871	34,244	1,760	0	36,184
2007-08	59	22,335	2,600	10,321	35,256	1,996	0	37,311

DEDICATED FUND TAX RECEIPTS

All or portions of several tax sources, including the personal income tax, transportation-related taxes and fees, cigarette taxes, sales and use taxes, and corporate taxes are statutorily dedicated to various Special Revenue, Debt Service and Capital Projects Funds. The tables below identify each dedicated fund by Fund type, the source and amount of dedicated tax receipts deposited in 2005-06 and estimated to be deposited in 2006-07 to 2010-11. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS

DEDICATED FUND TAX RECEIPTS (millions of dollars)			
SPECIAL REVENUE FUNDS	**2005-06 Actual**	**2006-07 Estimated**	**2007-08 Recommended**
School Tax Relief Fund (STAR)			
Personal income tax	3,213	3,996	4,948
Dedicated Mass Transportation Trust Fund	645	675	704
Petroleum business tax	371	360	386
Motor fuel tax	111	109	112
Motor vehicle fees	163	206	206
Mass Trans. Operating Assistance Fund	1,586	1,801	1,780
Corporate Surcharges			
Corporation franchise tax	388	525	497
Corporation and utilities tax	149	113	113
Insurance tax	96	113	109
Bank tax	132	155	129
Other			
Sales and use tax	604	694	722
Petroleum business tax	143	133	142
Corporation and utilities — sections 183 & 184	74	68	68
HCRA Resources Fund			
Cigarette Tax	571	565	631
Other Special Revenue Funds			
Motor Vehicle Fees	42	42	42
Total Tax Receipts: Special Revenue Funds-Other	6,057	7,079	8,105
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal income tax	6,900	7,610	9,068
Clean Water/Clean Air Fund			
Real estate transfer tax	826	803	688
Local Government Assistance Tax Fund			
Sales and use tax	2,615	2,539	2,650
Total Tax Receipts: Debt Service Funds	10,341	10,952	12,406
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,829	1,894	1,954
Petroleum business taxes	632	613	657
Motor fuel tax	420	410	424
Motor vehicle fees	557	652	652
Highway use tax	160	157	157
Transmission tax	18	17	17
Auto rental tax	42	46	49
Environmental Protection Fund			
Real estate transfer tax	112	147	212
Total Tax Receipts: Capital Projects Funds	1,941	2,041	2,166
Total Tax Receipts: Other Funds	**18,339**	**20,071**	**22,678**

DEDICATED FUND TAX RECEIPTS (millions of dollars)			
SPECIAL REVENUE FUNDS	**2008-09 Recommended**	**2009-10 Recommended**	**2010-11 Recommended**
School Tax Relief Fund (STAR)			
Personal income tax	5,601	6,126	6,422
Dedicated Mass Transportation Trust Fund	718	743	758
Petroleum business tax	394	396	397
Motor fuel tax	113	114	115
Motor vehicle fees	211	233	246
Mass Trans. Operating Assistance Fund	1,840	1,901	1,966
Corporate Surcharges			
Corporation franchise tax	522	552	582
Corporation and utilities tax	113	113	114
Insurance tax	113	115	119
Bank tax	128	128	128
Other			
Sales and use tax	747	776	806
Petroleum business tax	149	149	150
Corporation and utilities — sections 183 & 184	68	68	68
HCRA Resources Fund			
Cigarette Tax	625	616	606
Other Special Revenue Funds			
Motor Vehicle Fees	42	42	42
Total Tax Receipts: Special Revenue Funds-Other	8,826	9,428	9,795
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal income tax	9,706	10,342	10,912
Clean Water/Clean Air Fund			
Real estate transfer tax	688	738	738
Local Government Assistance Tax Fund			
Sales and use tax	2,746	2,849	2,959
Total Tax Receipts: Debt Service Funds	13,140	13,929	14,609
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,988	2,034	2,068
Petroleum business taxes	671	674	677
Motor fuel tax	426	428	429
Motor vehicle fees	660	696	720
Highway use tax	164	167	171
Transmission tax	17	17	17
Auto rental tax	50	52	55
Environmental Protection Fund			
Real estate transfer tax	212	212	212
Total Tax Receipts: Capital Projects Funds	2,200	2,246	2,280
Total Tax Receipts: Other Funds	**24,166**	**25,603**	**26,684**

DEDICATED FUND TAX RECEIPTS

The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

SPECIAL REVENUE FUNDS

School Tax Relief Fund ("STAR" Fund-053)

The School Tax Relief Fund is established by Section 97-rrr of the State Finance Law. The Fund consists of all moneys credited or transferred thereto from the General Fund or from any other fund or sources. The moneys of the Fund are appropriated for school property tax exemptions granted pursuant to the Real Property Tax Law.

Dedicated Mass Transportation Trust Fund ("DMTTF" Fund-073)

The Dedicated Mass Transportation Trust Fund is established by Section 89-c of the State Finance Law. State tax receipts of the DMTTF are derived from the State's motor fuel tax, motor vehicle fees, and a portion of the petroleum business tax. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects.

Mass Transportation Operating Assistance Fund ("MTOAF" Fund-313)

The Mass Transportation Operating Assistance Fund is established by Section 88-a of the State Finance Law. Tax receipts dedicated to the fund are comprised of a 17 percent surcharge levied on the portion of the State general business corporation tax, bank tax, the corporations and utilities tax, and the insurance tax allocated to the Metropolitan Transportation Commuter District (MTCD), a .375 percent sales tax levied in the MCTD, a portion of the petroleum business tax, and a portion of the taxes on transportation and transmission companies. The moneys of the MTOAF are subject to appropriation and are allocated among two accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established.

- Public Transportation Systems Operating Assistance Account (PTSOAA - Fund 313-01)
- Metropolitan Mass Transportation Operating Assistance Account (MMTOAA - Fund 313-02)

The PTSOAA receives:

- As recommended in the Executive Budget, effective April 1, 2007, the PTSOAA will receive 27 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law.
- 45 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

The MMTOAA receives:

- As recommended in the Executive Budget, effective April 1, 2007, MMTOAA will receive 53 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law.
- All tax receipts from the 17 percent surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, the insurance taxes, and the bank tax and that conduct business in the Metropolitan Commuter Transportation District ("MCTD").
- Tax receipts from the one-quarter of one percent sales and use tax imposed in the MCTD.
- 55 percent of the 19.7 percent of the basic petroleum business tax that is dedicated to the MTOAF.

Health Care Reform Act Resources Fund ("HCRA" Fund-061)

The Health Care Reform Act (HCRA) Resources Fund is established by section 92-dd of the State Finance Law and receives slightly more than 61 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City's locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

State Lottery Fund (Fund-160)

The State Lottery Fund is established by Section 92-c of the State Finance Law. Receipts of the Fund are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Division of the Lottery, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions. The table below summarizes the receipts generated from lottery and video lottery terminals (VLTs). Lottery receipts are classified as Special Revenue miscellaneous receipts.

STATE LOTTERY FUND
(millions of dollars)

	2005-06 Actual	2006-07 Estimated	2007-08 Recommended	2008-09 Recommended	2009-10 Recommended	2010-11 Recommended
Lottery	2,018	2,021	2,139	2,202	2,299	2,326
VLTs	162	275	586	1,062	1,348	1,778
Total Lottery	2,179	2,296	2,725	3,264	3,647	4,104

Other Special Revenue Funds

In 2006, certain motor vehicle fees were reclassified from special revenue miscellaneous receipts to special revenue motor vehicle fees. Though these receipts have moved from one category to another; they still remain dedicated to the same funds.

DEBT SERVICE FUNDS

Revenue Bond Tax Fund ("RBTF" Fund 311-02)

The Revenue Bond Tax Fund is established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

Clean Water/Clean Air Fund ("CWCAF" Fund-361)

The Clean Water Clean Air Fund is established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligations bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

Local Government Assistance Tax Fund ("LGATF" Fund-364)

The Local Government Assistance Tax Fund is established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a 1 percent rate of taxation. Payments from the Fund are pledged to pay the debt service on State-supported Local Government Assistance Corporation Bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

CAPITAL PROJECTS FUNDS

Dedicated Highway and Bridge Trust Fund ("DHBTF" Fund-072)

The Dedicated Highway and Bridge Trust Fund is established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax and a portion of the transportation and transmission tax imposed under the corporations and utilities tax. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching

Federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, and ferry lines. Payments from the Fund are also pledge to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds.

Environmental Protection Fund ("EPF" Fund-078)

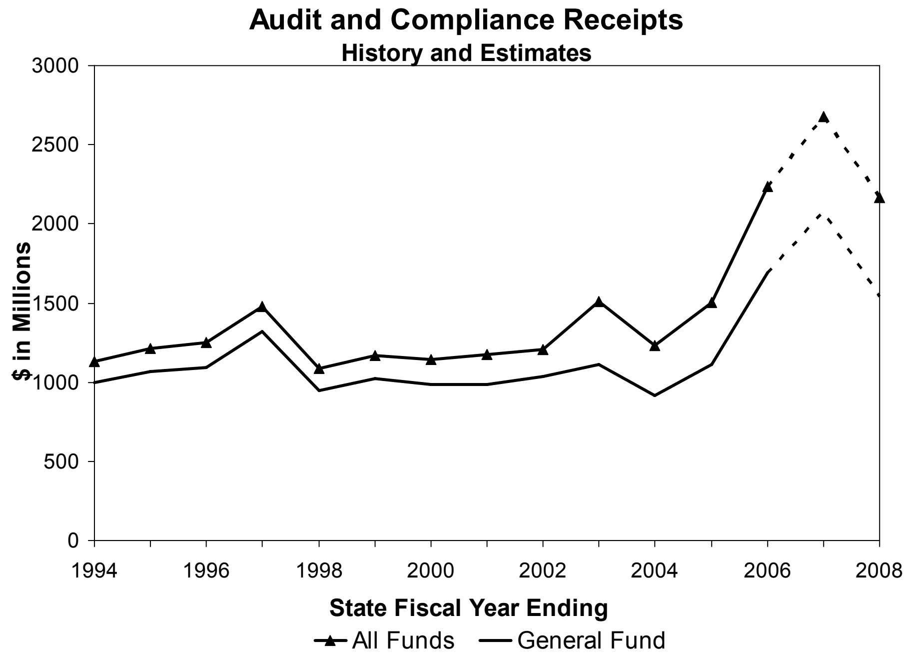
The Environmental Protection Fund is established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of $147 million. Legislation enacted with the 2006-07 Budget increased the annual EPF dedication from $147 million to $212 million beginning in 2008-09. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project or local solid waste management plans.
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or coastal rehabilitation project.
- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Division of the Budget.

AUDIT AND COMPLIANCE RECEIPTS

Audit and Compliance (millions of dollars)							
	2005-06 Actual	2006-07 Estimated	Change	Percent Change	2007-08 Projected	Change	Percent Change
General Fund	1,691	2,081	390	23.1	1,542	(539)	(25.9)
Other Funds	546	594	48	8.8	623	29	4.9
All Funds	2,237	2,675	438	19.6	2,165	(510)	(19.1)

Note: Totals may differ due to rounding.



DESCRIPTION

This section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported are already reflected in the estimates of individual tax receipts contained in this volume.

The Department of Taxation and Finance's Office of Tax Operations (OTO) is composed of an Audit Division and a Compliance Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax.

The collections base of OTO activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. The receipts (i.e., "audit and compliance" collections or receipts) from audit activities are the result of incorrect tax payments, including filing returns with math errors; filing past due returns or the incorrect return; the improper interpretation of Tax Law, regulations or instructions; and tax evasion that results in a gap between the amount that is legally due and required to be paid and the amount that was voluntarily paid. In certain instances, taxpayers may also be subject to penalties and interest.

GROWTH IN RECENT AUDIT AND COMPLIANCE COLLECTIONS

TABLE 1
Growth All Funds Audit and Compliance Collections
(in millions)

	All Funds Audit and Compliance Collections	Change from Prior Year	Percent Change from Prior Year
1993-94	1,130		
1994-95	1,211	81	7.2
1995-96	1,247	36	3.0
1996-97	1,480	233	18.7
1997-98	1,085	(395)	(26.7)
1998-99	1,169	84	7.7
1999-00	1,141	(28)	(2.4)
2000-01	1,174	33	2.9
2001-02	1,209	35	3.0
2002-03	1,510	301	24.9
2003-04	1,232	(278)	(18.4)
2004-05	1,503	271	22.0
2005-06	2,237	734	48.8
Estimated			
2006-07	2,675	438	19.6
2007-08	2,165	(510)	(19.1)

Collectively, it is estimated that the portion of All Funds receipts attributable to audit and compliance activities and reflected in the estimates and projections of the individual taxes, will reach about $2.68 billion in 2006-07 and about $2.17 billion in 2007-08. This source of receipts has grown dramatically in recent years. In fact, these receipts are estimated to have more than doubled in five fiscal years. This growth can be attributed to a combination of policy actions adopted over the past few years and improved performance of the Department of Taxation and Finance in identifying and concluding productive audits. Estimated growth in these collections for 2006-07 was a robust 20 percent, following 49 percent in 2005-06 and 22 percent in 2004-05. Prior to 2002-03, audit and compliance receipts were relatively flat year-to-year.

Table 2
All Funds Audit Collections by Tax Type
(in millions)

	2004-05	2005-06	Change Prior Year	Percent Change Prior Year
Personal Income Tax	**630**	**701**	**71**	**11.3**
User Taxes and Fees	**331**	**350**	**19**	**5.8**
Business Taxes	**504**	**1,144**	**640**	**126.8**
Corporation and Utilities Taxes	43	101	58	132.8
Corporate Franchise Tax	397	653	256	64.5
Bank Tax	24	330	306	1271.3
Insurance Tax	32	33	1	1.7
Petroleum Business Tax	7	27	20	273.5
Other Taxes	**38**	**41**	**4**	**10.0**
Total	**1,503**	**2,237**	**734**	**48.8**

Historic Growth in 2005-06 Audit Receipts

The historic growth in 2005-06 audit receipts of $734 million (49 percent) over the prior year is primarily attributable to growth in audit collections from business taxes of 127 percent or $640 million. The balance of the increase is attributable to the audit receipts from the personal income tax (an increase of 11.3 percent or $71 million), user taxes and fees (5.8 percent or $19 million) and other taxes (an increase of 10 percent or $4 million).

Bank tax audit receipts, which increased from just $24 million in 2004-05 to almost $330 million, account for more than one-half of the $640 million increase in business tax audit collections. The increase is largely attributable to the Voluntary Compliance Initiative (VCI) that was enacted in 2005 and provided the temporary authority for the Department of Taxation and Finance to require the reporting and disclosure of Federal and New York reportable transactions and gave taxpayers a limited period of time (from October 1, 2005 through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such transactions. The VCI initiative resulted in the collection of approximately $200 million in bank tax audit receipts in 2005-06. The authority for the Department of Taxation and Finance to require the reporting of such transactions currently expires on July 1, 2007. The Executive Budget includes legislation that will make the Department of Taxation and Finance's authorization to require such reporting permanent. This legislation is expected to ensure that revenue derived from the VCI Program moves into the voluntary base.

Audit receipts from the corporate franchise tax account for $256 million of the $640 million increase and were the result of significant collections received in April and May of 2005. The balance of the 2005-06 increase in business tax collections from the prior year is attributable to audit collections from the telecommunications industry collected under the corporation and utilities taxes (a 133 percent increase or $58 million), and the petroleum business tax (a 274 percent increase or $20 million).

Growth in 2006-07 Estimated Receipts Continues to be Robust

Table 3
All Funds Audit Collections by Tax Type
(in millions)

	2005-06	2006-07	Change Prior Year	Percent Change Prior Year
Personal Income Tax	**701**	**744**	**43**	**6.1**
User Taxes and Fees	**350**	**344**	**(7)**	**(1.9)**
Business Taxes	**1,144**	**1,521**	**377**	**33.0**
Corporation and Utilities Taxes	101	60	(41)	(40.6)
Corporate Franchise Tax	653	1,165	512	78.4
Bank Tax	330	242	(88)	(26.6)
Insurance Tax	33	47	14	42.4
Petroleum Business Tax	27	7	(20)	(73.9)
Other Taxes	**41**	**66**	**25**	**59.8**
Total	**2,237**	**2,675**	**438**	**19.6**

Audit receipts for 2006-07 are estimated to increase from $2,237 million in 2005-06 to $2,675 million. The continued robust growth in estimated 2006-07 audit receipts of $438 million (almost 20 percent) over 2005-06 is again primarily attributable to growth in audit collections from business taxes of 33 percent or $377 million. The balance of the increase is attributable to the audit receipts from the personal income tax (an increase of 6.1 percent or $43 million), and other taxes (an increase of nearly 60 percent or $25 million), offset by a slight decline in audit receipts from user taxes and fees (1.9 percent or $7 million). The significant increase in audit receipts from other taxes is due to the receipt of $24 million in estate tax audits in November 2006.

Corporate franchise tax audit receipts are estimated to increase from $653 million in 2005-06 to $1,165 million, a jump of $512 million. The increase is attributable to the settlement of audit issues with a significant number of financial service and other large multi-state taxpayers. Year-to-date collections suggest that insurance tax audit receipts will increase by $14 million or 42 percent over the prior year. These increases in audit collections from business taxes are offset by declines in receipts from corporation and utilities taxes from $100 million to $60 million (41 percent); the bank tax from $330 million to $240 million (27 percent) and the petroleum business tax from $27 million to $7 million (74 percent). Although these are sharp declines from prior year results, receipts remain higher than average collections over the ten-year period beginning in 1993-94 of $29 million for the corporation and utilities taxes and $66 million for the bank tax.

Projected Receipts for 2007-08

Table 4
All Funds Audit Collections by Tax Type
(in millions)

	2006-07	2007-08	Change Prior Year	Percent Change Prior Year
Personal Income Tax	**744**	**809**	**65**	**8.7**
User Taxes and Fees	**344**	**338**	**(6)**	**(1.6)**
Business Taxes	**1,521**	**983**	**(538)**	**(35.4)**
Corporation and Utilities Taxes	60	28	(32)	(53.3)
Corporate Franchise Tax	1,165	800	(365)	(31.3)
Bank Tax	242	107	(135)	(55.8)
Insurance Tax	47	41	(6)	(12.8)
Petroleum Business Tax	7	7	0	0.0
Other Taxes	**66**	**35**	**(31)**	**(47.0)**
Total	**2,675**	**2,165**	**(510)**	**(19.1)**

Audit receipts for 2007-08 are projected to decrease from $2,675 million in 2006-07 to $2,165 million. Although receipts are projected to decline significantly from the prior year's historically high levels, they remain significantly above average All Funds collections over the ten-year period beginning in 1993-94 of $1,235 million. Projected audit receipts for 2007-08 include an expectation of additional receipts attributable to new targeted resources for the Department of Taxation and Finance. These investments will increase receipts through improved technology and additional compliance agents. The decline in projected 2007-08 audit receipts of $510 million (19 percent) from 2006-07 is the result of a moderation in audit collections from business taxes from last year's historic levels, which are projected to decline by 35 percent or $538 million. The bulk of the $510 million decrease in audit receipts from business taxes in 2007-08 is due to decreases in corporate franchise tax receipts of $365 million, bank taxes of $135 million, and corporation and utilities taxes of $32 million. The balance of the decrease is attributable to the audit receipts from other taxes ($31 million or 47 percent) and user taxes and fees (roughly $6 million or 1.6 percent), offset by an increase in audit receipts from personal income taxes ($65 million or 8.7 percent).

Trends in All Funds Audit and Tax Receipts

Table 5 below reports All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 percent to 4 percent of total All Funds tax receipts. However, in 2006-07 they are projected to be 4.6 percent of All Funds tax receipts.

TABLE 5 All Funds Audit and Compliance Collections As A Percent of All Funds Tax Receipts (in millions)			
	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
1993-94	1,130	33,026	3.4
1994-95	1,211	33,050	3.7
1995-96	1,247	33,927	3.7
1996-97	1,480	34,620	4.3
1997-98	1,085	35,921	3.0
1998-99	1,169	38,495	3.0
1999-00	1,141	41,389	2.8
2000-01	1,174	44,658	2.6
2001-02	1,209	42,475	2.8
2002-03	1,510	39,626	3.8
2003-04	1,232	42,851	2.9
2004-05	1,503	48,598	3.1
2005-06	2,237	53,643	4.2
Estimated			
2006-07	2,675	58,309	4.6
2007-08	2,165	60,962	3.6

As is shown in the Table 6 below, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, sales and use taxes, and miscellaneous/other taxes) differs from the distribution of voluntary receipts by tax category. For example, the share of total audit and compliance receipts attributable to the business tax category ranged from about 27 percent to 41 percent over the ten-year period beginning in 1993-94. However, the business share of total taxes ranged from 12 percent to19 percent over that same period. As a result of significant audit collections in the bank and corporate franchise taxes discussed earlier, the percentage share of audit receipts from business taxes deviated, and is projected to continue to deviate from these historical trends and account for 51 percent, 57 percent and 45 percent, respectively, of total 2005-06, 2006-07 and 2007-08 audit receipts.

Table 6								
	Percent of All Funds Audit and Compliance Collections By Tax Category				Percent of All Funds Collections By Tax Category			
	Business Taxes	Other Taxes and Fees	Sales Tax	Personal Income Tax	Business Taxes	Other Taxes and Fees	Sales Tax	Personal Income Tax
1993-94	30	5	22	43	21	11	18	50
1994-95	29	6	25	40	19	11	20	50
1995-96	37	7	19	37	18	11	20	51
1996-97	41	5	20	34	19	10	20	51
1997-98	39	6	20	35	18	11	20	51
1998-99	40	5	19	36	17	10	20	53
1999-00	34	6	20	40	15	10	20	55
2000-01	31	4	22	43	13	8	19	60
2001-02	32	5	20	43	12	8	19	61
2002-03	31	4	20	45	13	8	22	57
2003-04	27	4	23	46	12	8	23	57
2004-05	34	3	21	42	12	8	23	57
2005-06	51	3	15	31	12	8	21	59
2006-07(e)	57	3	12	28	14	8	19	59
2007-08(e)	45	3	15	37	14	8	19	60

Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. However, during this ten-year period, the percent shares of audit and compliance receipts and total tax receipts attributable to the sales tax category were more consistent with one another, with the audit and compliance percentage ranging from 20 percent to 23 percent and the tax receipts percentage ranging from 19 percent to 23 percent. As a result of the large historical and projected increase in business tax audit receipts during the 2005-06, 2006-07 and 2007-08 period, the share of sales tax and personal income tax audit receipts deviate from these historical trends, but their respective shares of total tax receipts remains consistent with history.

Significant Legislation Impacting Historical Audit Receipts

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty - 1994

In 1994, New York State authorized a three-month tax amnesty program that focused on three types of taxpayers. The income tax component focused on non-residents required to file a New York return. The business tax component also focused on out-of-State taxpayers whose activities in New York State make them taxpayers, and the compensating use tax component focused on resident individuals and small businesses. This amnesty program required eligible taxpayers to pay any taxes owed in addition to all applicable interest, in exchange for the waiver of any related criminal prosecution or other administrative penalties.

Tax Amnesty - 1996

The legislation established a three-month tax amnesty program. Between November 1, 1996 and January 31, 1997, certain taxpayers could apply for a waiver of penalty relating to certain unpaid tax liabilities for taxable periods ending, or transactions or uses occurring, on or before December 31, 1994. The taxes covered by this amnesty program were the same taxes that were included under the 1985 program. These taxes were the personal income tax, the corporate franchise tax imposed under Article 9-A, certain taxes imposed under Article 9, the sales and use tax and the estate and gift tax. Three additional taxes that did not exist in 1985 were also covered by the program: the beverage container tax, the auto rental tax and the hotel occupancy tax.

The amnesty program excluded several groups of taxpayers. The excluded groups included those with outstanding liabilities owed under "sin" taxes (i.e., the alcoholic beverage tax and cigarette and tobacco products taxes), the real estate transfer tax, the real property gains tax, corporate franchise taxes imposed on banks and insurance companies, large corporations (those with more than 500 employees in the United States), regulated utilities and entities principally engaged in the conduct of aviation (with a tax liability under Article 9 of the Tax Law). Taxpayers that were involved in a criminal investigation or civil or criminal litigation relating to the penalty for which amnesty is sought were also excluded. Finally, taxpayers that received benefits under New York State's 1985 and 1994 amnesty programs were ineligible for amnesty for those taxes for which they already received benefits.

Tax Amnesty - 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two percent reduction in the applicable interest rate relating to unpaid liabilities. Beginning April 1, 2003, the interest rate computation applied to all liabilities increased by two percent for all taxpayers. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Department of Taxation and Finance, or taxpayers with more than 500 employees.

Extension of Bank Tax Provisions

Legislation has extended on multiple occasions certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. These include major reform amendments made in 1985 to the bank taxes imposed by New York State and New York City. At that time, all taxpayers were made subject to new asset and alternative entire net income (ENI) tax bases. The method of allocation of income changed from separate accounting to three-factor formula apportionment. Also added were several new modifications to income, including new deductions for income from subsidiary capital; all these changes were temporary. Two years later, New York decoupled from changes made by the Federal Tax Reform Act of 1986 with regard to the Federal and State bad debt deductions. These amendments were also temporary.

The primary motivation for these temporary statutory changes was the joint recognition by the industry, the Department of Taxation and Finance, and the New York City Department of Taxation and Finance that the then-current structure was deficient. The pre-1985 law was based upon separate accounting by branch. This antiquated system led to uncertainty for taxpayers, difficulties with administration, for both the industry and the State and City, and large audit assessments. Simplified administration and certainty of results were important goals of the new structure. The amendments were made temporary to provide an opportunity for adjustments if difficulties were encountered with the new law. Since enactment in 1985, the provisions have been extended without significant alterations. Legislation submitted with this budget will extend the majority of these provisions for two years.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Department of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005 through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative was available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and sunset in July 2007. Legislation submitted with the Executive Budget will make these reporting requirements permanent.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add back those deductions to their taxable income.